



SMALL-CAPS

RECOMMENDATION

energy one

EOL:ASX
November 2024

GENERAL ADVICE ONLY - THIS RECOMMENDATION IS GENERAL ADVICE ONLY AND DOES NOT TAKE INTO ACCOUNT YOUR SPECIFIC CIRCUMSTANCES

SMALL-CAPS RECOMMENDATION

Energy One EOL:ASX

Energy One (ASX: EOL) is a software and services provider to clients in Australia and Europe. It specialises in facilitating participation in wholesale energy markets.

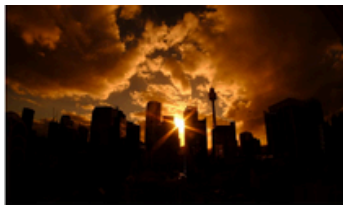
Not only does it sell a variety of software modules that facilitate energy trading, but it also provides 24/7 energy trading services to those clients who wish to outsource the function.

Energy One, therefore, has a variety of clients ranging from purely financial energy market traders to power generators such as wind farms, as well as large users of power who wish to buy directly from generators rather than pay a retail markup.

In FY 2024, 89% of its \$52.5 million in revenue was recurring in nature, with the remainder mostly unavoidable implementation project revenue.

The majority of that recurring revenue is for software sales, but a significant minority comes from “operations support and advisory.” This kind of service revenue is considered recurring in nature because ongoing service is required for clients to operate, but it is not as profitable as software revenue.

Services



Energy Procurement

We work with clients on energy procurement, ranging from whole-of-government energy procurement and the largest corporates in Australia, through to assisting small business and not-for-profit entities.

Analysis and Modelling

Our analysis team supports clients' energy market activities and is capable of performing very complex analysis.



Energy Trading

EQ Energy is the largest independent energy trader in Australia. Its activities take place on behalf of clients.



Strategic Advice

We can provide strategic energy advice to governments, councils, businesses, energy retailers, electricity generators, network operators, gas pipeline owners, infrastructure investors and overseas investors.



Advisory

Continuous coverage

Following the sun to provide 24/7 operational coverage of energy portfolios across the globe means there can always be an operator balancing your gas and power portfolio working in 'day hours', even if it is night-time where you are based.

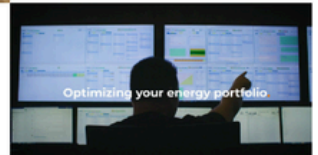


Experts with experience

Our global operations teams act as neutral and independent service providers. Our experienced teams handle on-behalf operations so that customers can focus on strategy.

We act on your behalf

Our teams work together and act on behalf of customers to execute their gas and power operations. Services include balancing power and gas portfolios, nominating positions, managing generation assets scheduling, handling unexpected outages and more. This includes services for renewable and distributed energy resources.



Compliance is key

We value compliance, privacy and confidentiality. The strategy is yours and we act on your behalf (Energy One does not make trading decisions).

Global, yet local

Energy One's global operations teams provide 24/7 market operations. With global reach and local experts, our offices around the world handle the scheduling, nomination and balancing of your energy portfolio for intra-day and same-day markets. Our experienced teams are agnostic and independent service providers.



INVESTMENT CONSIDERATIONS

Leadership

Ian Ferrier AC, one of the founders of leading insolvency firm Ferrier Hodgson, owns around 23% of the company. He entertained the takeover offer at \$5.85 in 2023.

Former director Vaughan Busby plays an important role in holding the board to account. He is a former CEO of Energy One and, prior to that, worked for Ian Ferrier at Ferrier Hodgson. He resigned from the board following disagreements around whether the board should support a takeover offer back in 2023. He owns over 14% of the shares, and without him, the risk of a successful takeover at an inadequate premium would increase.

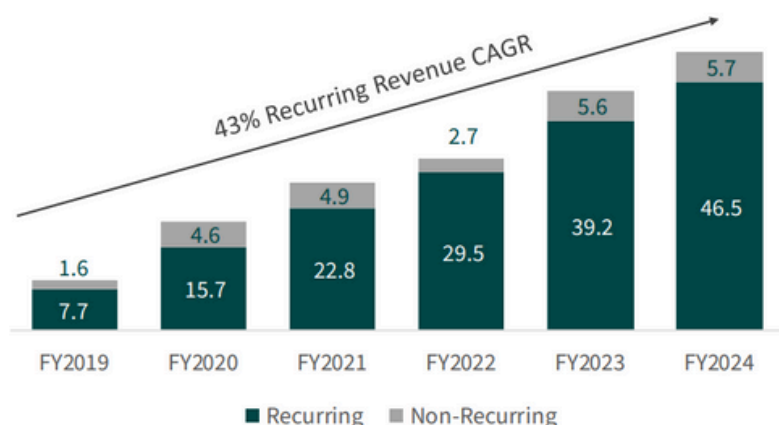
The long-serving Chairman Andrew Bonwick has presided over a period where Energy One has generally displayed good disclosure and performance, but he only owns around 565k shares.

CEO Shaun Ankers is generously paid a short-term incentive of 4.5% of underlying profit after tax; he is rather well aligned (and also well remunerated). He owns a bit over 1 million shares.

The resolutions pertaining to the CEO remuneration achieved support of between 96% and 99% of the votes demonstrating the high regard shareholders have for Ankers.

The remaining directors Leanne Graham, Mike Ryan and Richard Kimber don't own many shares, and the latter two saw ~28% of the registry vote against their election at the 2024 AGM.

Financial Performance*



- **In FY24, Recurring revenue grew by 19% (all organic):**
 - Australia – Software 9%
 - Australia - Services – 13%
 - Europe - 27% overall
- Brokerage revenue down 47% (paused re-insurance markets due to market volatility). Will recover in FY25.

- Recurring revenue grew by 19% whilst Annual Recurring Revenue grew by 16%. Project revenue of \$5.7mil was flat, with 33% growth in Europe offset by lower advisory revenue and slightly lower Australia activity.
- EBITDA and NPBT reflect continued investment in the businesses and globalisation investment. Result affected by one-offs (e.g. for re-structure). Benefits to flow in subsequent year
- Capitalisation of \$4.8mil was 9% of revenue (FY23 : 12%) and reflects scaling of business lines.
- 28% reduction in net debt during the year
- Group exceeded \$50mil of worldwide revenue, resulting in a one-off revaluation of acquisition related tax liabilities. The revaluation has a minimal cash impact on the current year

*August 2024

INVESTMENT CONSIDERATIONS

Valuation

Energy One made a profit of around \$1.45 million in FY 2024, comprising of a loss of ~\$500k in the first half and a profit of ~\$1.95m in the second half. Prior to the disappointing first half, every individual half had been profitable for many years. Based on the actual FY 2024 statutory profit, Energy One trades on a P/E ratio of about 118. The best annual profit result Energy One has ever achieved was about \$3.7 million in FY 2021. Based on the second half run-rate, it is quite possible that it could match or surpass that record profit in FY 2025. If that happens, it would imply it currently trades on an FY 2025 P/E ratio of between 40 - 50. However, based on the second half run-rate (which would be \$3.9m per annum), Energy One trades on a hypothetical run-rate P/E ratio of around 44. A quick appraisal of its enterprise value to trailing twelve months revenue ratio tells us that the market is neither particularly optimistic nor particularly pessimistic towards Energy One, compared to the last 10 years.



Sociological Factors

With a market capitalisation of around \$172 million, Energy One is a small company. On top of that, it is rather tightly held with the top 20 holders locking down around 77% of the float. Relatively few people have heard of the company, many investors avoid it due to its illiquidity, and only PAC Partners is currently providing analyst estimates to S&P Capital IQ.

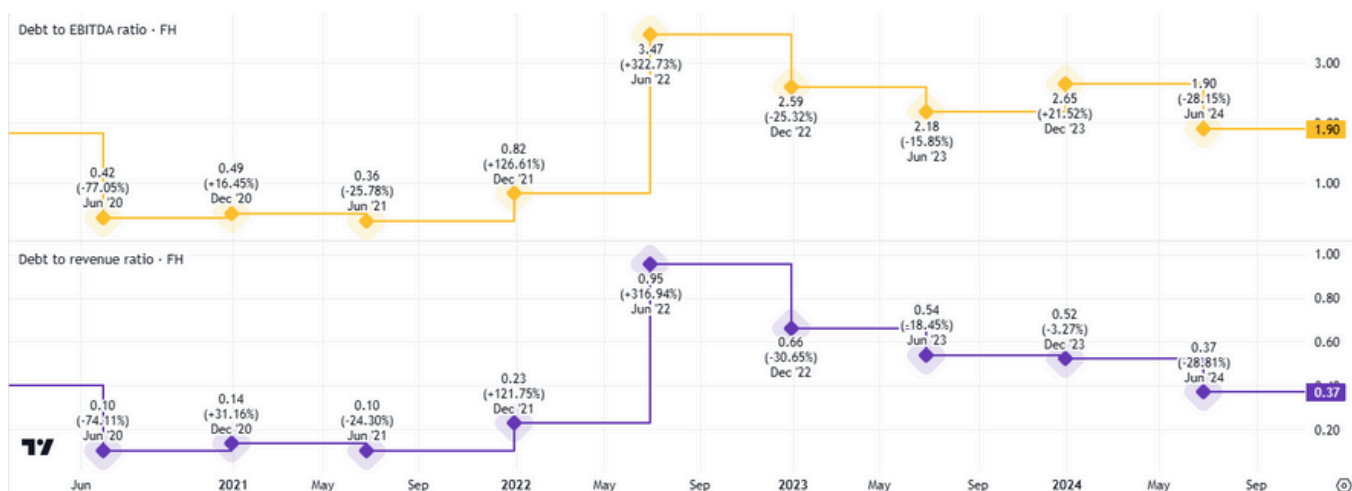
RISKS

Risks

Energy One is small, volatile and illiquid, and presents all the consequent risks. One risk is the reliance on the CEO, while another is that Director Ian Ferrier is not young, he might want to retire, or even sell his shares.

Both the CEO and Chairman were open to the offer at \$5.85, so there is still a risk that the company could get taken over for too low a price.

Energy One carries debt, so increasing interest rates hurt profits, and lack of profitability could lead to genuine distress in the worst case scenario.



In the past, Energy One has tapped its shareholders (most recently at \$4.05) in order to strengthen the levered balance sheet. Finally, Energy One has been investing in its 24/7 energy trading operations in the hope that it can win contracts to serve the new renewable generators that governments say they want to support. However, renewable energy development also faces opponents and unforeseen delays could mean that the returns on Energy One's investments in growth take longer than expected to manifest.



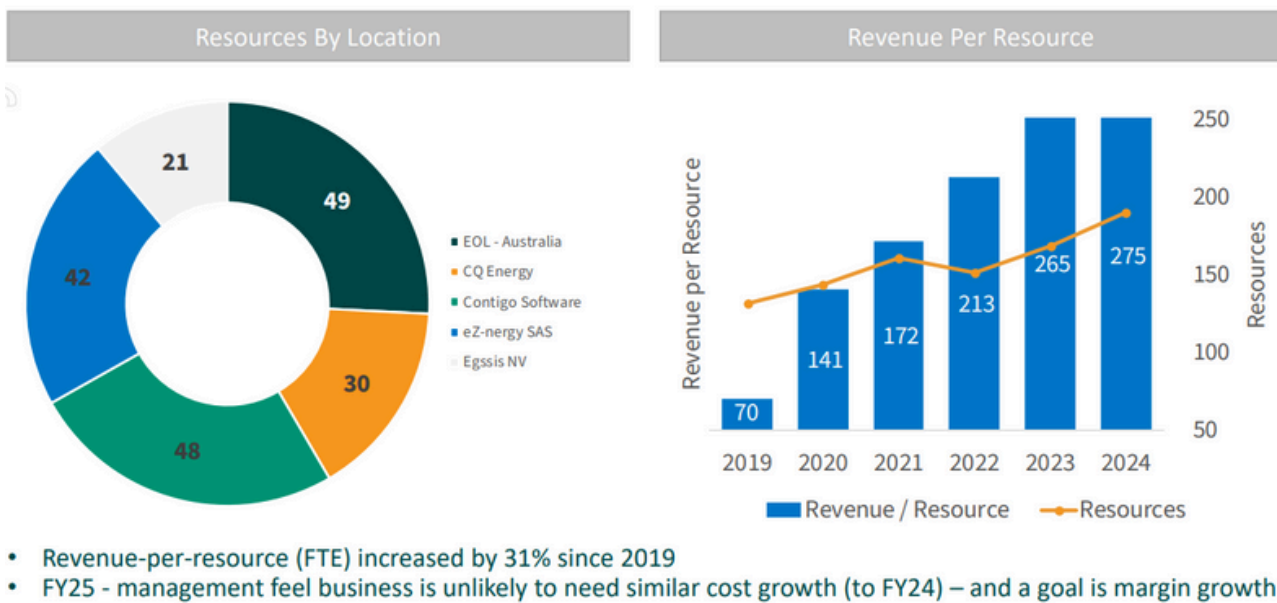
EOL in Market cap terms

WHY HOLD THE COMPANY?

Why hold the Company?

Energy One scores extremely well on a heuristic test: it has high levels of recurring revenue, long-serving, successful, honest and aligned leadership, a track record of strong revenue growth, and a sensible strategy that seeks to move the business to “where the puck is going”. Success, if far from guaranteed, could manifest if the company can continue to grow profit and revenue over the years. Then, it will start to look extremely cheap relative to other profitable recurring revenue software businesses, on the ASX. That means while the risk of failure (and consequentially a lower share price) are real, the potential upside arguably outweighs the potential downside. Energy One is only appropriate for long term investors who are comfortable with high risk, high reward investments. Position sizes should reflect the illiquidity, risks and potential high volatility of the stock.

Resource base localized for service delivery - Revenue per FTE continues to grow



Conclusion

Energy One stands out as a compelling investment opportunity with significant growth potential. The company's impressive 89% recurring revenue base and strong market position provide a solid foundation for future expansion

With its strategic focus on facilitating participation in wholesale energy markets, Energy One is well-positioned to capitalize on the growing trend towards renewable energy and direct power purchasing. Energy One's recent performance, particularly its strong second-half results, suggests a promising trajectory for FY 2025 and beyond. While the current valuation may appear high based on trailing earnings, it reflects the market's recognition of the company's growth prospects and the quality of its recurring revenue model

Disclaimer



Our Commitment

recommendations, managed and presented by Milton Park Equities Pty Ltd (ABN 33 668 234 562), as a Corporate Authorised Representative of LeMessurier Securities Pty Ltd (ABN 43 111 931 849) (LemSec), holder of Australian Financial Services Licence No. 296877, offers insights and analyses formulated in good faith. Our evaluations and projections are grounded in the known facts at the time of creation and aim to provide a comprehensive view of the anticipated financial landscape in 2024. However, readers should be aware that these projections are estimates and may not fully materialize.

Scope and Application

The insights within MPC Markets are crafted for a broad audience and do not specifically cater to individual investment objectives, financial situations, or needs. Readers should consider the suitability of the advice in relation to their personal circumstances before making any investment decisions.

Research Integrity and Use

The research and content of MPC Markets are intended solely for our readers and should not be copied, distributed, or shared without proper attribution. While we strive to ensure accuracy and relevance, Milton Park Equities cannot guarantee the continuous updating or correction of the information or opinions expressed within the publication.

Disclaimer of Liability

Milton Park Equities, in its capacity as a Corporate Authorised Representative of LemSec, disclaims any responsibility for losses or damages arising from reliance on the opinions, advice, recommendations, or information—whether direct or implied—contained in the MPC Markets Discount Entry Note, notwithstanding any errors, omissions, or instances of negligence.

Analyst Objectivity

All research analysts contributing to the MPC Markets Discount Entry Note affirm that the views expressed represent their personal opinions regarding the subject companies and financial products covered in the publication.

Copyright and Usage Rights

The content of MPC Markets Discount Entry Note is the property of Milton Park Equities Pty Ltd, either through ownership or licensing agreements. Unauthorized reproduction, adaptation, linkage, framing, broadcasting, distribution, or transmission of this material is prohibited without express written permission from Milton Park Equities, except for personal use or as allowed by applicable laws.