MPC MARKETS

SMALL-CAPS

RECOMMENDATION

energyone

EOL:ASX

November 2024

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ENERGY ONE LIMITED
EOL:ASX

MPC MARKETS

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.

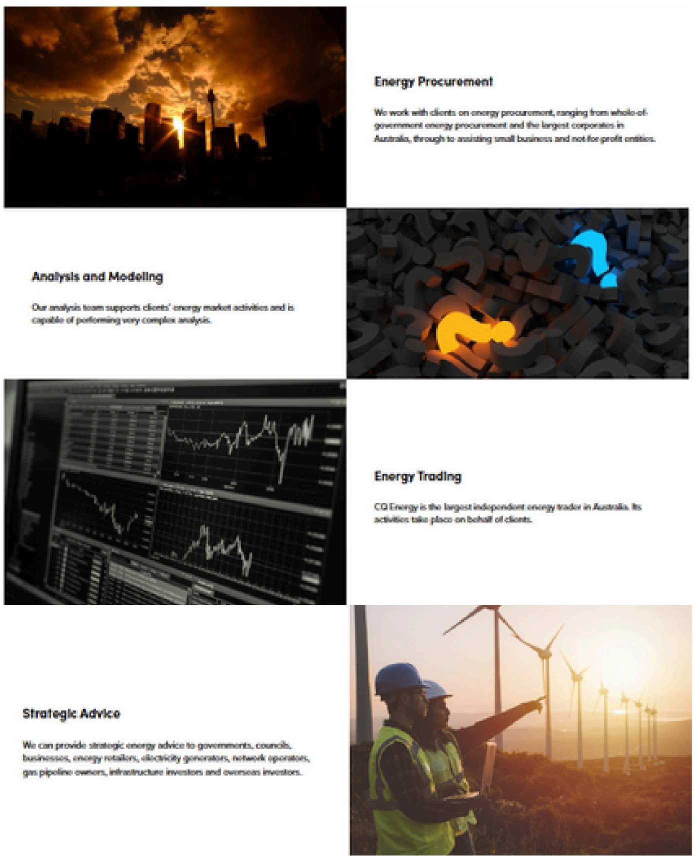
Not only does it sell a variety of software modules that facilitate energy trading, but it also provides 24/7 energy trading services to those clients who wish to outsource the function.

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.

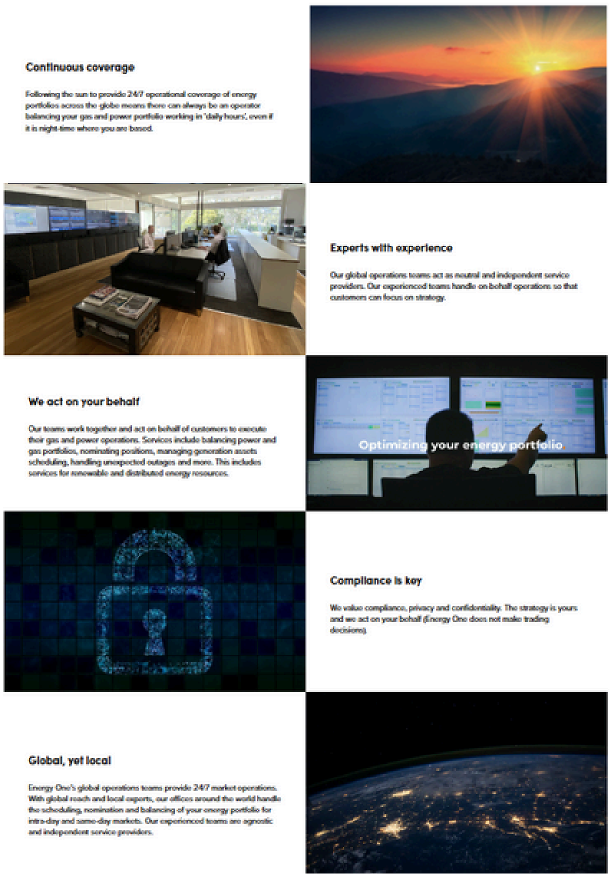
In FY 2024, 89% of its $52.5 million in revenue was recurring in nature, with the remainder mostly unavoidable implementation project revenue.

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



Advisory



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.

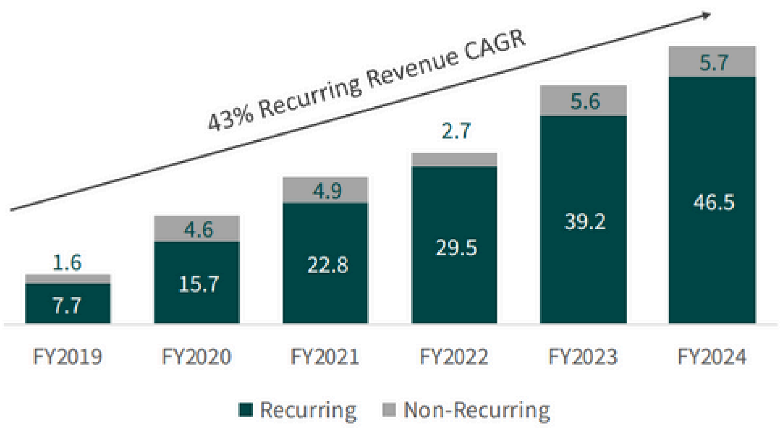
The long-serving Chairman Andrew Bonwick has presided over a period where Energy One has generally displayed good disclosure and performance, but he only owns around 565k shares.

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.

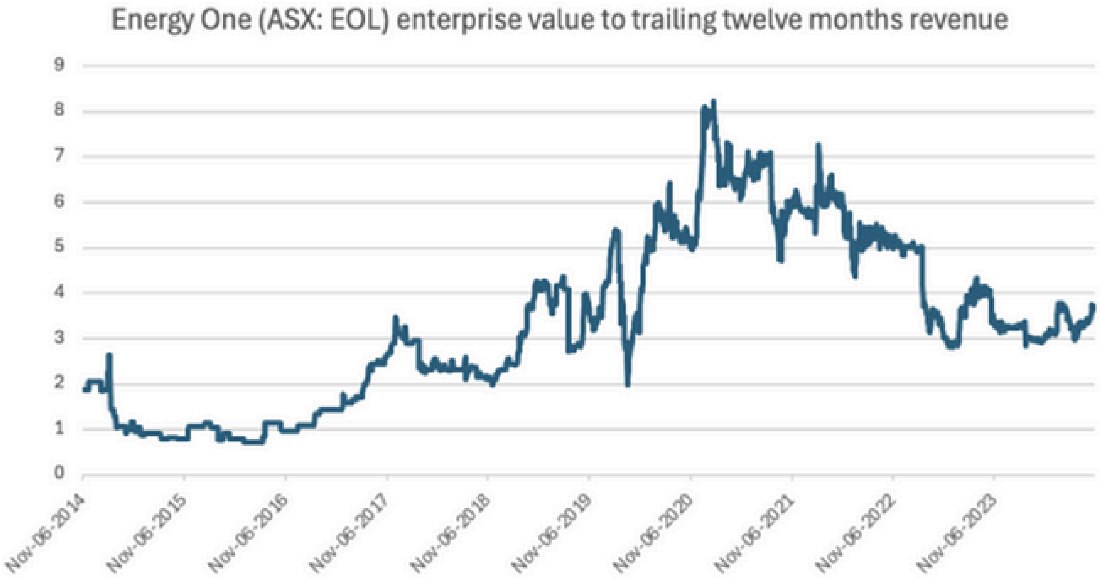
- Recurring revenue grew by 19% whilst Annual Recurring Revenue grew by 16%. Project revenue of $5.7mil was flat, with 33% growth in Europe offset by lower advisory revenue and slightly lower Australia activity.
- EBITDA and NPBT reflect continued investment in the businesses and globalisation investment. 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.

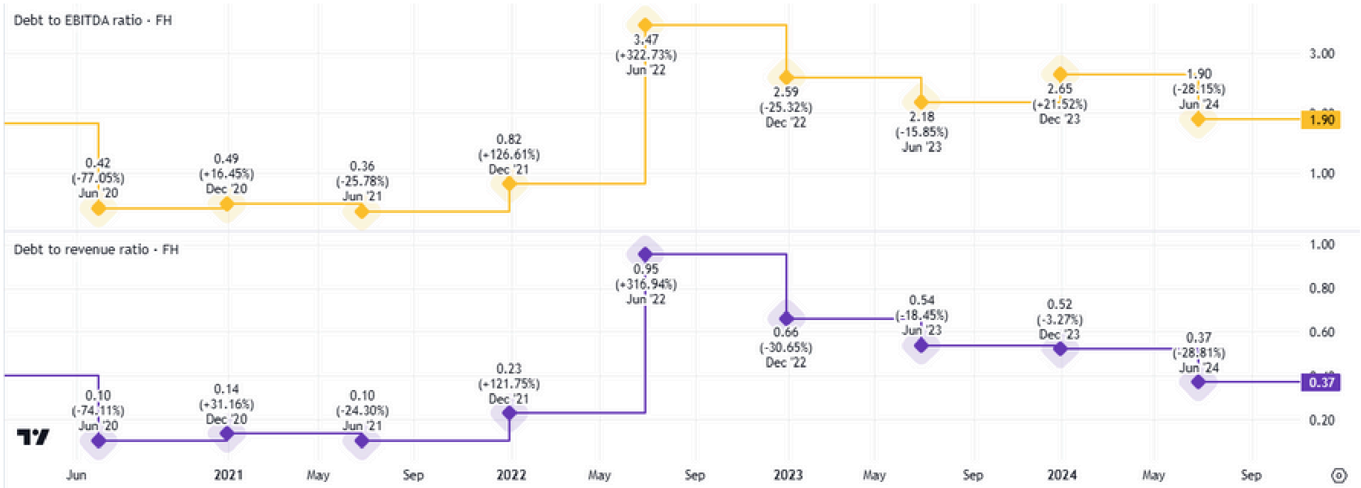
RISKS

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.



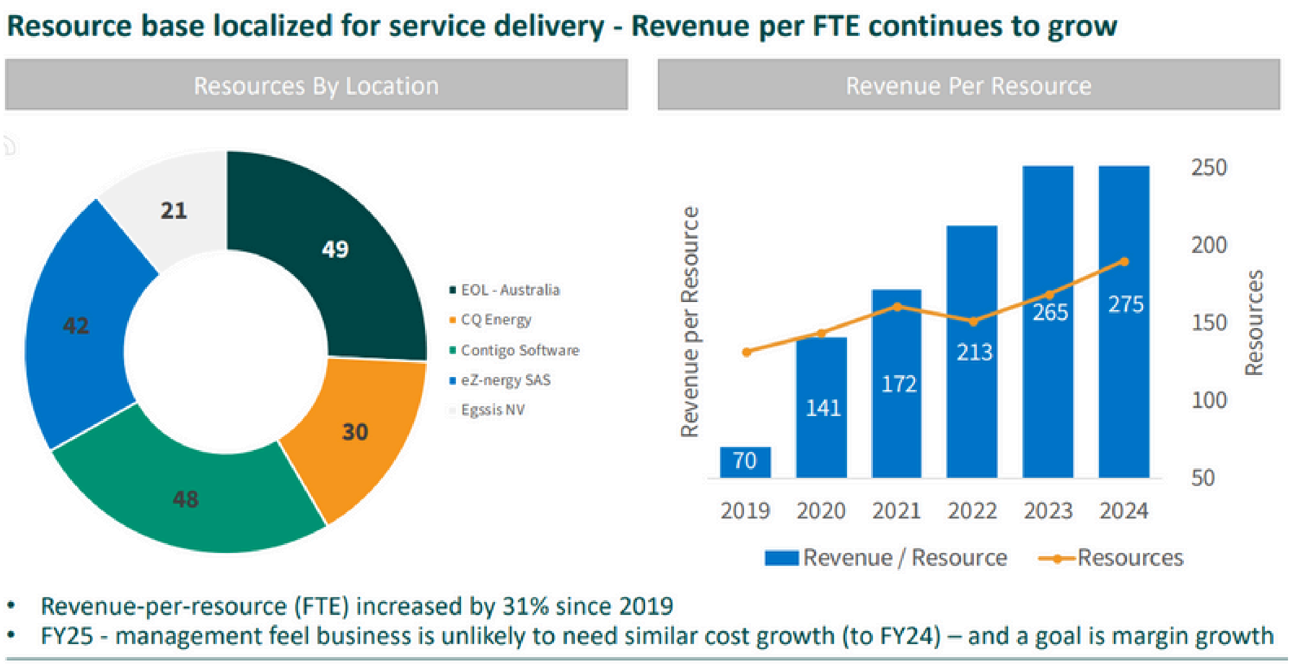
In the past, Energy One has tapped its shareholders (most recently at $4.05) in order to strengthen the levered balance sheet. Finally, Energy One has been investing in its 24/7 energy trading operations in the hope that it can win contracts to serve the new renewable generators that governments say 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.



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

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Our Commitment

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