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BigAir Group Limited

October 2011

GICS Sub-Industry: **Information Technology– Telecommunication Services**

Research Overview

Business Description

BigAir Group [ASX:BGL] is a telecommunication carrier that owns and operates Australia's largest metropolitan fixed WiMax broadband network. BigAir provides near blanket coverage across major metropolitan areas including Sydney, Melbourne, Brisbane, Gold Coast, Adelaide and Perth. BigAir distributes its services through direct sales to businesses and governments as well through partnerships with other IT resellers and ISP's.

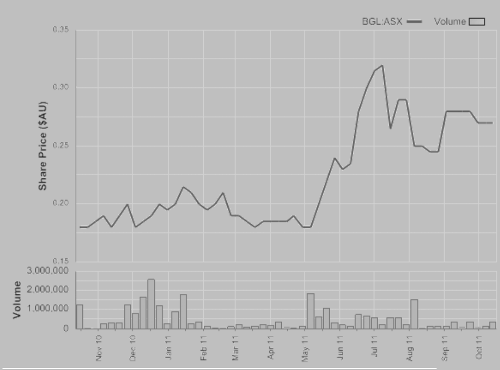
Event

- **FY11 Result:** Strong FY11 results with a 66% increase in EBITDA to $5.4m on the back of a doubling of revenue to $15.5m.
- **Acquisitions to deliver in FY12:** FY12 will mark a significant milestone in the company's operational developments and forecast significant uplifts in EBITDA and NPAT.
- **Significant operating cost savings and synergy benefits:** The acquisition of Clever Communications will allow significant operating costs to be stripped out and integration into BigAir's wireless network is likely to result in gross margin improvements.

ASX :BGL

Last traded	A$	0.265
Market Cap	A$'m	40.0
Nº of Shares	m	151.2
2011A EPS	¢	1.2
2011 PE	x	22.0
2011 EV/EBITDA	x	7.0
DPS 2011A	¢	0.00
Div Yield 2011A	%	0.00%
Revenue 2011A	m	15.5
EBITDA 2011A	m	5.4
NPAT 2011A	m	1.5

Share Price | 1 Year



Investor Queries

Jason Ashton
BigAir Group- CEO

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Important disclosure information at the end of this report

Business Description

BigAir Group owns and operates Australia's largest metropolitan fixed WiMAX broadband network. Founded in 2002 by Jason Ashton and Patrick Choi. BigAir specialises in providing fixed "on-net" broadband wireless communications services to the SME market and ISP services to the tertiary student accommodation sector.

Board of Directors & Management Team

Paul Tyler | **Non-Executive Independent Chairman**

B.Eng, MBA. Over 18 years international experience in the Telecommunications industry holding executive roles in Nokia Siemens Networks, Nokia and Alcatel. Currently Head of the Asia Pacific Region at Nokia Siemens Networks and previously Managing Director of Nokia Siemens Networks for Australia, New Zealand and the Pacific Islands. Chairman of Nomination and Remuneration Committee and Audit Committee.

Jason Ashton | **CEO and Managing Director**

B.Sc, M. Comm. Co-founded BigAir in 2002. Previously co-founded business ISP Magna Data in 1993, which was acquired by Davnet Limited in 1999 for $20m. Also served as CEO of DavTel Pty Ltd, Australian subsidiary of NTT Communications (Japan).

Nigel Jeffries | **Non-Executive Director**

B. Comm. New Zealand based investor and substantial shareholder of BigAir. CEO of Propertyiq NZ Ltd, a joint venture company of RP Data Pty Ltd and QV Ltd. 20 years' experience in senior positions in Information and Technology sector. Holds a Commerce degree from Massey University. Member of Nomination and Remuneration.

Vivian Stewart | **Non-Executive Director**

B.A., MBA. Extensive background in IT&T industry, venture capital and corporate advisory. Co-founded two IT&T companies and currently a director of Hall Capital specialising in capital raisings and corporate strategy. Member of Nomination and Remuneration Committee and Audit Committee.

Charles Chapman | **CFO and Company Secretary**

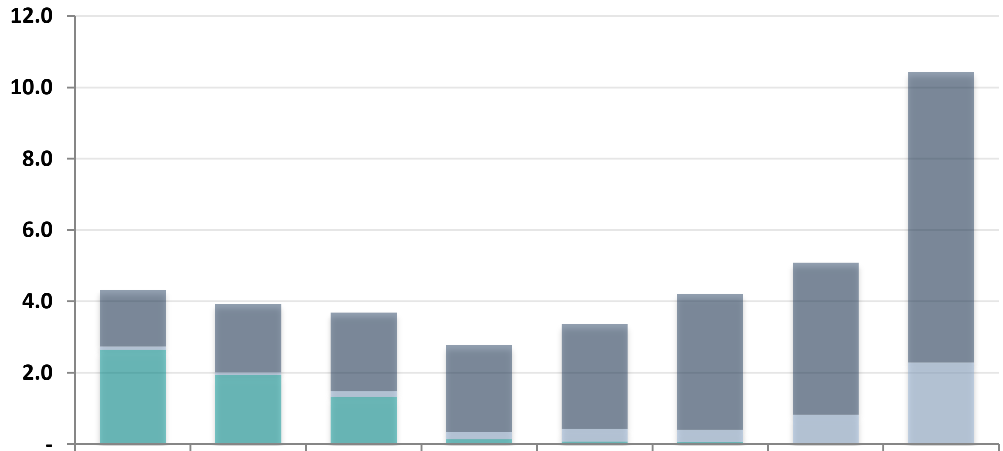
Chartered Accountant (CA), Certified Information Systems Auditor (CISA) and a member of the Project Management Institute. Extensive experience working in senior executive roles providing operational and strategic leadership to both listed and private unlisted companies. Long service with PricewaterhouseCoopers, leading the provision of audit services for some of the firm's flagship clients. Driving force behind online share trading in South Africa with the listed PSG Group. Currently Chief Financial Officer of the Group.

Major Shareholders

BGL - Top 20 Shareholders as at 30 June 2011.

		NUMBER	PERCENTAGE
1.	Microequities Asset Management Pty Limited	10,679,200	7,083
2.	Jmas Pty Ltd	9,579,718	6.354
3.	Custodial Services Limited	8,000,000	5.306
4.	Vorpal Pty Limited	7,361,704	4.883
5.	HSBC Custody Nominees (Australia) Limited- A/C 2	5,105,482	3.386
6.	Cullingral Pty Limited	4,733,982	3.140
7.	Mr Ivan Tanner & Mrs Felicity Tanner	3,535,000	2.345
8.	Livwat Pty Ltd	3,326,346	2.206
9.	Aus Executor Trustees NSW Ltd	3,299,185	2.188
10.	Moat Investments Pty Ltd	3,033,401	2.012
11.	Symmall Pty Ltd	3,000,000	1.990
12.	Zygonaut Pty Ltd	2,512,563	1.666
13.	Benchmark Trading Pty Ltd	2,489,907	1.651
14.	Rocken Pty Ltd	2,001,933	1.328
15.	LJ Catelan Superannuation Fund Pty Ltd	1,949,037	1.293
16.	ML Catelan Superannuation Fund Pty Ltd	1,949,037	1.293
17.	Old Fletcher & Partners Pty Ltd	1,543,600	1.024
18.	Emico Pty Ltd	1,464,421	0.971
19.	Mr Patrick Choi	1,402,225	0.930
20.	Equitas Nominees Pty LImited	1,301,409	0.863
TOTAL FOR TOP 20 SHAREHOLDERS:		78,268,150	51.911

BUSINESS SEGMENTS



	1H08	2H08	1H09	2H09	1H10	2H10	1H11	2H11
On-net Fixed Wireless Data	1588	1927	2208	2437	2932	3809	4264	8136
Community Broadband	84	68	153	194	363	346	829	2291
Off-net	2654	1941	1332	141	72	59	0	0

SOURCE COMPANY DATA

Fixed Wireless

BigAir specialises in providing fixed wireless services to SMEs and tertiary education institutions that require premium grade symmetrical speed data communications. The fixed wireless service offers a significantly higher gross margin than the off-net division and was a contributing factor in the closure of iBurst off-net division. The acquisition of Clever Communications, a key competitor in the fixed wireless market allows BigAir to realise significant cost and revenue synergies as Clever's network is integrated into BigAir's fixed wireless backhaul.

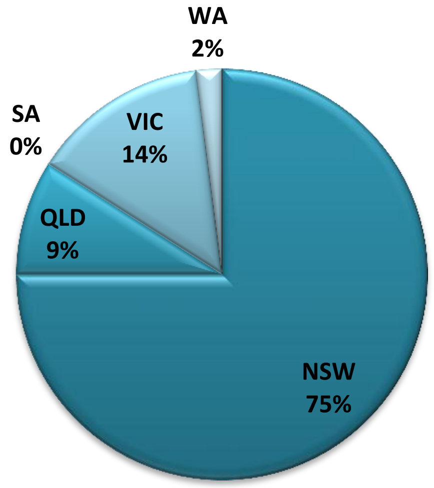
Managed Accommodation ISP

BigAir Group's recent acquisition of AccessPlus continues its push into the highly lucrative student accommodation sector. The increasing focus by universities to provide on campus student accommodation provides BigAir with significant scope to increase its user base and drive revenue growth going forward. We also believe there are significant cost efficiencies to be realised from the integration of AccessPlus and BigAir Universe Broadband.

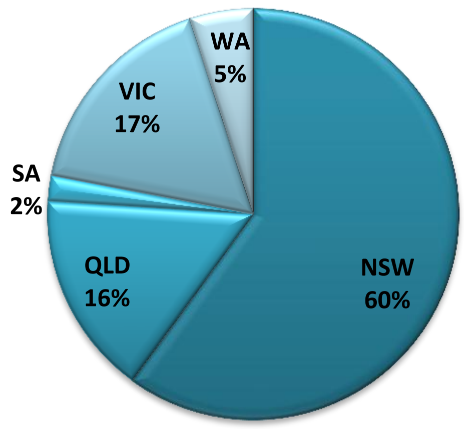
GEOGRAPHICAL BREAKDOWN

NSW contributed 75% of revenue in FY09. This has decreased to around 60% and is expected to fall further as BigAir continues to seek opportunities in network areas (e.g. Sunshine Coast) driven by strong customer growth.

FY09 Revenue Contribution by State



FY10 Revenue Contribution by State



SOURCE: COMPANY DATA

FY11 RESULTS SUMMARY

- FY11 result showed six months of consolidation from the Clever acquisition. Revenue contribution was $3.6m. Circa $1.1m of annual operating costs savings have been realised to date.
- EBITDA margin was lower at 35% (FY10: 43.2%). This was due to the timing of the Clever acquisition with only a partial year's revenue contribution whilst restructuring costs of $0.65m was recognised.
- Access Plus contributed just under 6 months of revenue in FY11. Revenue of $1.35m was slightly below management guidance of $1.5m. Strong organic growth was recorded in the fixed wireless legacy business in 2H11 after stripping out the impact of the Clever acquisition and Wizz Communications. We believe BGL's legacy business on its own grew by around 13% half on half.

Figures in A$'mn	FY08	FY09	FY10	FY11
EBITDA	**-$1.7**	**$2.2**	**$3.3**	**$5.4**
EBITDA MARGIN	*-20%*	*34%*	*43%*	*35%*
EBITDA Growth YOY		*233%*	*48%*	*66%*
NPAT	**-2.4**	**1.0**	**1.5**	**1.5**
NPAT Margin	*-28%*	*16%*	*20%*	*9.9%*
ROE	**-56%**	**19%**	**21%**	**7.5%**
Debt-to-equity	**0%**	**0%**	**0%**	**0%**

SOURCE: COMPANY DATA, MICROEQUITIES ESTIMATE

FY12 OUTLOOK

- FY12 will mark a significant milestone in the company's operational developments with a significant uplift in EBITDA and NPAT in FY12 as a full year contribution from recent acquisitions is delivered.
- The acquisition of Clever Communications will allow significant operating costs to be stripped out and integration into BigAir's wireless network is likely to result in gross margin improvements. Management believes a further $1m will be realised over the course of the FY12 with savings made in occupancy costs, admin, billing systems, CRM systems and network synergies.
- We maintain our view of a 1.0c maiden final dividend to be paid in FY12 due to strong cash flow generation, assuming no material acquisitions. Management have largely ruled out an interim dividend and we believe an on-market buyback could be considered if BGL continue to trade at large discounts to intrinsic value.

MANAGEMENTQ&A

Jason Ashton
CEO

What are some of the key skills and experiences of the management team that will ensure continued success for BigAir into the future?

The qualities in the management team that will ensure our continued success are the combination of Telecommunications, IT, and engineering experience and expertise along with a strong customer focus. We are a customer focused organisation across the board and we endeavour to ensure that our customers are at the centre of all our thinking especially around how we can improve and build the business. We also have a very strong commercial focus which ensures that we get the best possible return we can from the investments we are making in our broadband networks.

KEY AREAS OF FOCUS OVER THE NEXT 12 MONTHS:
"We will be ramping up our organic sales growth as well as looking at potential corporate opportunities that can leverage our network and our growing customer base. We have demonstrated strong organic growth over the last 3 years and we expect this will only improve as we start to leverage our expanded network and wholesale customer base"

"The BigAir network already represents a compelling alternative to copper and fibre, and in the future it will also represent a compelling alternative to the NBN for business use, as either a backup or primary data service"

How has BigAir been able to differentiate itself from other telecom providers?

From inception we have taken an alternative path to the traditional fixed line reseller model. We do not resell any Telstra services nor do we use the copper network at all - instead we have built our own completely independent end to end network, which allows us to differentiate our high speed data services from both Telstra and its resellers. Using our own high speed wireless infrastructure allows us to deliver high speed services to business customers where they want them, when they need them, and with reliability and certainly that cannot be matched by someone that is simply reselling another carriers services. Since we are not constrained by a reliance on traditional fixed line infrastructure such as copper and fibre, we can build out new coverage quickly and cost effectively to service the business markets ever increasing demand for faster services.

How has the recent acquisition of AccessPlus and Clever transformed the company?

By acquiring our leading competitors in both the high speed fixed wireless access and student accommodation markets, we have consolidated our position as the #1 company in both of these markets. This in turn has generated significant new business opportunities for the Group. Furthermore the increased financial strength of the merged company enables us to leverage new opportunities more effectively than would be possible if we were still a smaller company and to attract more sophisticated investors.

BigAir derives around an 80% gross margin. Do you expect the recently acquired CVA to attain similar margins as BigAir's existing on-net division? What is the timeframe that this could be achieved?

Yes, we believe the margin of the recently acquired fixed wireless division can operate on similar margins to our own fixed wireless division. We are running some very intensive network integration projects at the moment to drive this margin improvement and we expect these projects to be largely completed by the end of this year.

What impacts, if any, will the NBN have on BigAir?

There is still a fair amount of uncertainty around the NBN and how long it will take to be rolled out. We are however well positioned to deliver services in both a pre and post-NBN world. The BigAir network already represents a compelling alternative to copper and fibre, and in the future it will also represent a compelling alternative to the NBN for business use as either a backup or primary data service. With the gradual shift to cloud computing more and more businesses will be looking for redundant connectivity to the Internet and BigAir will be one of the very few real alternatives to the NBN once the copper network is retired.

BigAir is trading at a significant discount to its peers. Do you feel the company is vulnerable to corporate activity?

Yes it is true we are currently trading at a heavy discount to some of our peers and in some cases as much as a 50% discount. However, we have a very loyal long-term shareholder base that we believe are not likely to be tempted by an offer without a significant premium. As we continue to execute our business plan over the next 12 months and really start to extract the synergy benefits from the recent acquisitions we expect our stock will obtain a significant re-rating.

What is the likelihood of a maiden dividend in FY12?

This is definitely on the cards for next year but will need to be agreed and signed off by our Board before it can be confirmed.

What are the key areas of focus for BigAir over the next 12-24 months?

Right at the moment we are very focused on completing the integration projects that we are running this year. Once the integration work winds down we will be ramping up our organic sales growth as well as looking at potential corporate opportunities that can leverage our network and our growing customer base. We have demonstrated strong organic growth over the last 3 years and we expect this will only improve as we start to leverage our expanded network and wholesale customer base.

FINANCIAL SUMMARY

INCOME STATEMENT			
Year to June	2009A	2010A	2011A
Revenue	6.5	7.6	15.5
Cost of Good Sold	1.7	1.5	4.6
Op. Expenses	2.6	2.8	8.7
EBITDA	**2.2**	**3.3**	**5.4**
% Change	*233%*	*48%*	*1.4*
% of Revenue	*34%*	*43.2%*	*0.3*
Depreciation & Amortisation	0.9	1.1	2.5
EBIT	**1.4**	**2.3**	**2.3**
% of Revenue	*21%*	*30%*	*0.2*
Net Interest Income (Expense)	0.1	0.1	0.1
EBT	**1.3**	**2.2**	**2.3**
Tax	-0.3	-0.7	-0.8
Net Profit	**1.0**	**1.5**	**1.5**

KEY RATIOS			
Year to June	2009A	2010A	2011A
Sales	6.5	7.6	15.5
% Chg YoY	*-0.2*	*17%*	*136%*
Price/Sales	5.6	4.8	2.5
EPS (cents)	**0.7**	**1.0**	**1.2**
% Chg YoY	*143%*	*51%*	*245%*
P/E	**35.6**	**23.6**	**21.7**
Enterprise Value	34.1	34.1	35.8
EV/EBIT	**25.2**	**15.1**	**15.6**
EV/EBITDA	**15.4**	**10.4**	**6.6**
DPS	0.0	0.0	0.00
Dividend Yield	0.0	0.0	0.0%
ROE	19%	21%	7%
Debt to Assets	0.0	0.0	0.0
Debt to Equity	0.0	0.0	0.0

BALANCE SHEET			
Year to June	2009A	2010A	2011A
Cash & cash equivalents	2.0	2.1	2.8
Receivables	0.1	0.6	0.9
Inventories	0.0	0.0	0.0
Other Assets	0.0	0.1	0.4
Total Current Assets	**2.2**	**2.7**	**4.1**
Trade and other receivables	0.0	0.0	0.1
Property, Plant & Equipment	2.5	4.7	7.8
Deferred tax assets	1.6	1.0	1.0
Goodwill	0.0	0	11.3
Other intangible assets	0.1	0.9	2.2
Total Non-Current Assets	**4.3**	**6.5**	**22.4**
TOTAL ASSETS	**6.5**	**9.2**	**26.5**
Trade and other payables	1.1	1.8	3.6
Provisions	0.1	0.1	0.3
Income received in advance	0.0	0.0	0.4
Interest bearing borrowings	0.0	0.0	0.0
Current tax liabilities	0.0	0.0	0.2
Total Current Liabilities	**1.3**	**2.0**	**4.5**
Trade and other payables			**1.4**
Long Term Provisions	**0.0**	**0.1**	**0.1**
Total Non-Current Liabilities	**0.0**	**0.1**	**1.4**
TOTAL LIABILITIES	**1.3**	**2.0**	**5.9**
NET ASSETS	**5.2**	**7.2**	**20.5**

CASH FLOW STAMENT			
Year to June	2009A	2010A	2011A
Receipts from customers	6.9	7.8	17.4
Payment to suppliers	-5.3	-4.9	-12.4
Net Interest	0.1	0.1	0.1
Dividend received	0.0	0.0	0.0
Tax Paid	0.0	0.0	0.0
Other Op. Cash items	0.0	0.0	0.0
Cash from Operations	**1.7**	**2.9**	**5.1**
Payments for PPE	1.3	2.9	3.2
Payment for acquisitions	0.0	0.0	2.7
Payment for intangible assets	0.0	0.0	0.4
Invested in listed shares	0.0	0.0	0.0
Loan to subsidiary	0.0	0.0	0.0
Cash from Investing	**-1.4**	**-2.9**	**-6.3**
Incr/(Decr) in Equity	0.0	0.0	2.0
Incr/(Decr) in Debt	0.0	0.0	-0.1
Dividends paid	0.0	0.0	0.0
Cash from Financing	**0.0**	**0.0**	**1.9**
Net Cash	**0.4**	**0.1**	**0.7**
Opening Cash Balance	1.7	2.0	2.0
Closing Cash Balance	**2.0**	**2.1**	**2.8**

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RECOMMENDATION GUIDE

Recommendation	Market Price undervalued/overvalued to Microequities price objective
Strong Buy	Above 40%
Buy	20 to 40%
Hold	0 to 20%
Sell	0 to -20%
Strong Sell	Greater than 20%

ADDITIONAL VOLUNTARY DISCLOSURE BY MICROEQUITIES*

Investment Banking	Staff Interest	Analyst personal Interest	Equity Stake By Microequities Associates	Disclosure to Company	Business Relationship
NO	✓	NO	✓	NO	✓

* To promote transparency, Microequities voluntarily discloses potential conflict of interests covered by this research document.

**Microequities Asset Management and its associates are currently a substantial shareholders of BigAir Group Limited (ASX:BGL).