BigAir Group Limited

21st February 2012

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

First Half Results...

Recent News

BigAir Group Limited [ASX:BGL] announced its first half results with both organic growth and acquisitions helping it post record revenue and net profit figures. Management have reiterated full year EBITDA guidance of $9.0m.

Following the AGM

Event

- **1H12 results:** BigAir is on track to meet FY12 EBITDA guidance of $9.0m. First half NPAT was up 211% to $1.97m on the back of a 115% rise in revenue to $10.97m.
- **Strong growth all round:** Fixed Wireless division showed 8.8% half-on-half revenue growth (excluding Clever) and Community Broadband grew its top line by 11.4% compared to 2H11.

View

- **Record earnings in FY12:** We revise our FY12 EBITDA and revenue forecasts to $10.1m (previously: $10.5m) and $23.5m (previously: $24.2m) respectively. These changes reflect more conservative half on half revenue growth and margin assumptions.
- **Maiden dividend in FY12:** We maintain our expectation of a 1.0c maiden full year dividend, representing a 32% payout ratio based on our 3.2c EPS forecast.
- **Acquisitions:** Management has flagged potential acquisitions in the community broadband division. Whilst not factored into our modelling, acquisitions could provide added upside to our valuation.

Valuation

We raise our price objective from $0.42 to $0.44, representing a 36.3% discount to the last traded price of $0.325. Our recommendation is downgraded to a **BUY** following the recent run up in share price. BGL remains on a very low FY12 EV/EBITDA multiple of 4.5x. Its favourable organic growth profile, further synergies and upside from future acquisitions justify our recommendation.

BGL | BUY

Price Objective: **$0.44**

Last traded	A$	0.325
Market Cap	A$'m	49.1
Nº of Shares	m	151.2
2011A EPS	¢	1.2
2012e EPS	¢	3.2
2012e PE	x	10.2
2012e EV/EBITDA	x	4.5
DPS 2012e	¢	1.00
Div Yield 2012e	%	3.1%
Revenue 2011A	m	15.5
Revenue 2012e	m	23.4
EBITDA 2011A	m	5.4
EBITDA 2012e	m	10.1
NPAT 2011A	m	1.5
NPAT 2012e	m	4.8

Share Price | 1 Year

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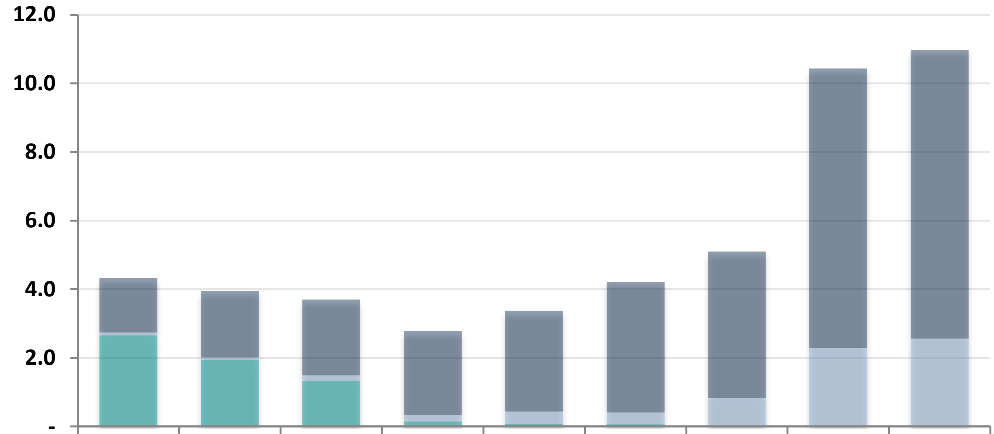
FIRST HALF UPDATE

BigAir delivered a strong first half result in our view, after considerable management time and resources were focused on acquisitions integration and cost synergy realisation. Revenue rose 115% to $10.97m and NPAT up 211% to $1.97m, from organic growth, recent acquisitions and synergies. EBITDA was 161% higher at $4.57m, outpacing revenue growth, a sign of improved margins following investment in network equipment and cost savings from acquisitions.

Revenue up 115%, EBITDA up 161% and NPAT up 211%.

HISTORICAL HALF YEAR REVENUE BY DIVISION



	1H08	2H08	1H09	2H09	1H10	2H10	1H11	2H11	1H12
On-net	1588	1927	2208	2437	2932	3809	4264	8136	8416
Community	84	68	153	194	363	346	829	2291	2558
Off-net	2654	1941	1332	141	72	59	0	0	0

SOURCE: COMPANY DATA, MICROEQUITIES ESTIMATES

Fixed Wireless division

Revenue rose 110% to $8.95m with EBITDA up 135% to $4.0m. This result reflected revenue and earnings contributions from the Clever Communications acquisition for the entire period. Our estimates also indicates that organic revenue growth excluding the Clever contributions, was circa 8.8% half-on-half (1H12 v 2H11).

Whilst the acquisition of Clever Communications led to a 110% rise in revenue, half on half revenue growth continues to be strong.

The BigAir network now has near blanket coverage across nine cities around Australia following further investment in network expansion in the first half. We believe strong organic growth will continue with increasing demand for higher speed internet access and redundancy requirements that come with increasing cloud data storage.

Community Broadband division

The community broadband division also showed strong organic growth, with revenue rising 208% to $2.56m and EBITDA up 195% to $0.56m. Organic growth was strong with half-on-half revenue growth of circa 11.4% (1H12 v 2H11). Investment by universities to expand student accommodation in response to shortages in the private rental market provides the underlying growth drivers for BigAir to derive significant growth in this division. Expansion into new sites and investigating potential acquisition opportunities in the second half remain the key focus for management.

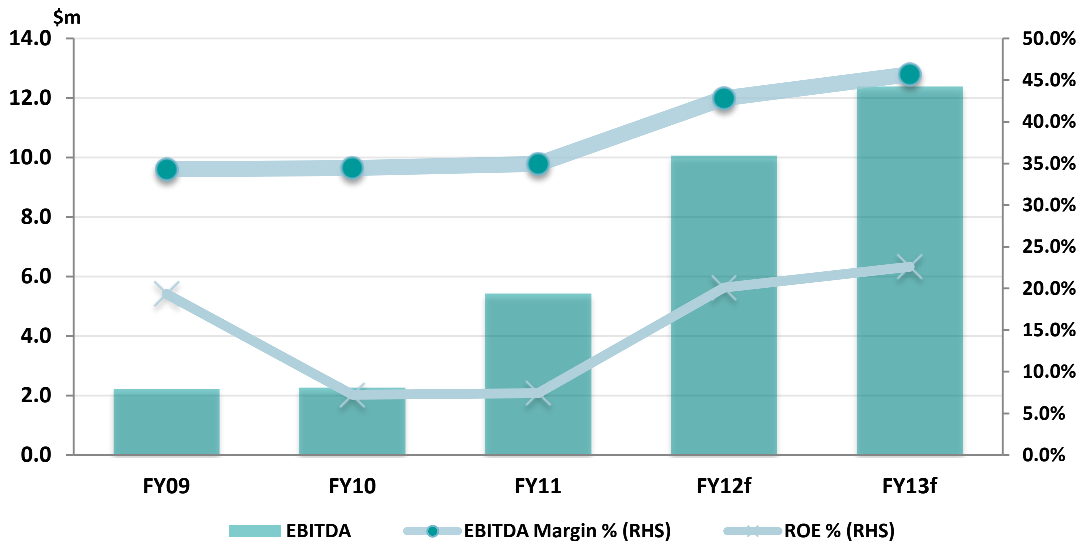
Community broadband showed 11.4% organic half on half revenue growth with a slight acceleration into 2H12 as BigAir expands into new sites.

Further cost synergies in 2H12

Management has flagged a further $0.4m in cost synergies to be realised in 2H12. Included in this is Clever Communication's lease contract on its headquarters expiring in April, which we estimate to be around $0.3m per annum. Ongoing cost saving is already evident, with EBITDA margins improving from 36% in the June quarter, 40% in the September quarter and 41.6% overall for the first half.

$0.4m in cost synergies will be realised in 2H12 with a positive impact on EBITDA margins.

HISTORICAL AND FORECAST FINANCIALS



SOURCE: COMPANY DATA, MICROEQUITIES ESTIMATES

Strong balance sheet with maiden dividend on track in FY12

As previously reported, at the November AGM, the board initiated a dividend policy of a 33% payout subject to a $4.0m NPAT hurdle. Following a rise in the cash balance to $4.1m from $2.7m at FY11 end and deferred cash payments for acquisitions of $1.375m not due until January 2013, we maintain our expectations of a maiden FY12 final dividend of 1.0c and FY13 dividend forecast of 1.5c.

Strong operating cash flow, rising cash balance and record NPAT expected for FY12 sets the foundations for BigAir's maiden dividend.

We were also pleased with the strong operating cash flow performance, up 57% to $3.78m. Capex ($2.44m in 1H12) was higher than our expectations; however, most of this was associated with the integration of Clever Communications' customers onto the BigAir backhaul network. As a result, we do not expect the same level of expenditure for 2H12. We only make minor adjustments to our capex assumptions for FY12 ($3.9m v $3.6m previously).

CHANGES TO FY12 FORECASTS

Management guidance is highly conservative

Management has reiterated their previously stated $9.0m FY12 EBITDA guidance. We again believe this is very conservative and expect BigAir to comfortably exceed this target and record $10.1m in EBITDA.

We lighten our EBITDA forecasts to $10.1m on the back of $23.5m in revenue.

FY12 updated forecasts

We acknowledge our original FY12 forecasts were a little optimistic and now have been adjusted to reflect more conservative revenue growth and margin expansion for the second half and into FY13. We expect circa 11-13% half-on-half growth for the community broadband and fixed wireless in 2H12 with rollout into further student accommodation sites and expansion of the wireless network and underpinning this growth.

Continued double-digit half-on-half growth to underpin our forecasts.

We also raise our effective tax rates and depreciation and amortization forecasts slightly to account for the higher capex spend. Our forecast EPS for FY12 is 3.2c, representing a 164% jump from FY11.

We lower out FY12 and FY13 NPAT forecasts due to higher depreciation and effective tax rates.

Figures in A$'mn	2011	2012(F) Old	2012(F) New	2013(F) Old	2013(F) New
Revenue	**15.5**	**24.2**	**23.5**	**27.9**	**27.1**
COGS	4.6	5.9	5.7	6.8	6.6
Operating Expenses	8.7	7.7	7.6	8.1	8.0
Underlying EBITDA	**5.4***	**10.5**	**10.1**	**13.0**	**12.4**
EBITDA MARGIN	*35%*	*43.4%*	*42.8%*	*46.6%*	*45.7%*
Depreciation & Amort.	**2.5**	**3.3**	**3.4**	**3.1**	**3.6**
EBIT**	**2.3**	**7.2**	**6.7**	**9.8**	**8.8**
Net Interest Rec./(Paid)	0.1	0.1	0.1	0.2	0.2
Profit Before Tax	**2.3**	**7.1**	**6.9**	**9.6**	**9.0**
Tax	-0.8	-2.1	-2.1	-2.8	-2.7
NPAT	**1.5**	**5.1**	**4.8**	**6.9**	**6.3**

*Excludes $0.65m in one-off restructuring and acquisition expenses

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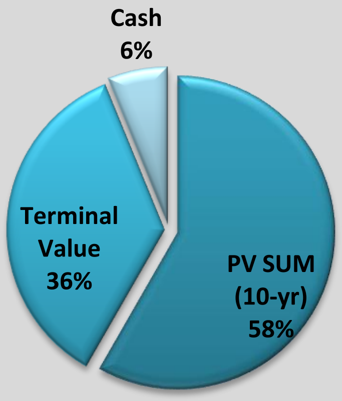
VALUATION | RECOMMENDATION

DCF valuation

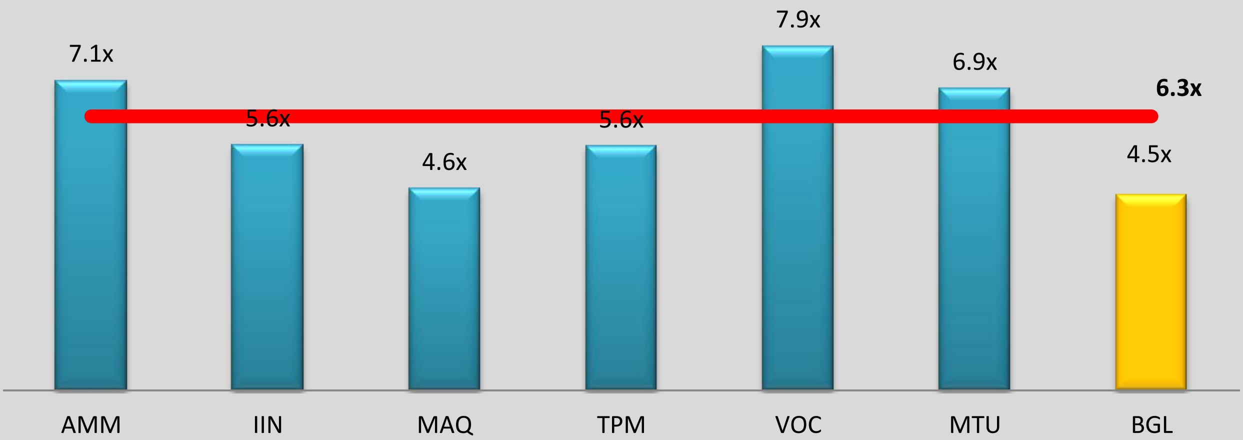
A rise in the risk free rate since our last report is offset by changes to our working capital assumptions and higher cash balance. Our DCF valuation of $0.44 represents a 35% premium to the last traded price of $0.325.



DCF Inputs		*As at 20th February 2012*	
Equity Beta:	1.33	**Interest-bearing Debt:**	-
Risk free rate:	4.12%	**Cost of Debt:**	-
Return on Equity:	14.06%	**WACC:**	14.06%
LT Growth Rate:	3.00%		

Relative EV/EBITDA valuation

Figure 2: Peer group summary (*as at 20th February 2012)*



We have undertaken a relative valuation using the most appropriate peer comparisons available. Using a peer average forecast FY12 EV/EBITDA multiple of 6.3, we have derived a relative valuation of $0.45 per share, representing a 38% premium to the current market price. Strong share price appreciation across the telecommunications sector since our last report has increased our relative valuation.

Investment Opinion

We reduce to a **BUY** recommendation but increase our price objective to **$0.44** representing a 36.3**%** premium to the last traded price of $0.325 (As at 20th February 2012). Despite the recent run up in share price, BGL remains grossly undervalued. The company is on track to achieve a record-breaking year and the payment of its maiden dividend.

PRICE OBJECTIVE & RECOMMENDATION HISTORY

Changes to recommendations and/or price objectives

Date	Recommendation	Price at time of Rec	Price Objective
21/02/2012	BUY	$0.325	$0.44
24/11/2011	STRONG BUY	$0.29	$0.42
30/08/2011	STRONG BUY	$0.255	$0.44
13/05/2011	STRONG BUY	$0.195	$0.30
07/01/2011	BUY	$0.20	$0.26
23/08/2010	BUY	$0.21	$0.28
20/04/2010	BUY	$0.20	$0.255
08/02/2010	STRONG BUY	$0.105	$0.21

FINANCIAL SUMMARY

INCOME STATEMENT			
Year to June	2011A	2012e	2013e
Revenue	15.5	23.5	27.1
Cost of Good Sold	4.6	5.7	6.6
Op. Expenses	6.2	7.6	8.0
less Net Interest Income (Expense)	0.1	0.1	0.2
EBITDA	**5.4**	**10.1**	**12.4**
% Change	*140%*	*86%*	*23%*
% of Revenue	*35.0%*	*42.8%*	*45.7%*
Depreciation & Amortisation	2.5	3.4	3.6
EBIT	**2.3**	**6.7**	**8.8**
% of Revenue	*0.2*	*0.3*	*0.3*
add Net Interest Income (Expense)	0.1	0.1	0.2
EBT	**2.3**	**6.9**	**9.0**
Tax	-0.8	-2.1	-2.7
Net Profit	**1.5**	**4.8**	**6.3**

KEY RATIOS			
Year to June	2011A	2012e	2013e
Sales	15.5	23.4	26.9
% Chg YoY	*136%*	*51%*	*15%*
Price/Sales	3.2	2.1	1.8
EPS (cents)	**1.2**	**3.2**	**4.2**
% Chg YoY	*246%*	*164%*	*31%*
P/E	**27.1**	**10.2**	**7.8**
Enterprise Value	46.4	46.4	46.4
EV/EBIT	**19.8**	**6.9**	**5.3**
EV/EBITDA	**8.5**	**4.5**	**3.7**
DPS	0.00	1.0	1.5
Dividend Yield	0.0%	3.1%	4.6%
ROE	7%	20%	23%
Debt to Assets	0%	0%	0%
Debt to Equity	0%	0%	0%

BALANCE SHEET			
Year to June	2011A	2012e	2013e
Cash & cash equivalents	2.8	5.9	8.6
Receivables	0.9	1.6	1.9
Inventories	0.0	0.0	0.0
Other Assets	0.4	0.4	0.4
Total Current Assets	**4.1**	**8.0**	**10.9**
Trade and other receivables	0.1	0.1	0.1
Property, Plant & Equipment	7.8	8.3	8.9
Deferred tax assets	1.0	0.0	0.0
Goodwill	11.3	11.3	11.3
Other intangible assets	2.2	2.2	2.2
Total Non-Current Assets	**22.4**	**22.0**	**22.5**
TOTAL ASSETS	**26.5**	**30.0**	**33.4**
Trade and other payables	3.6	3.7	4.6
Provisions	0.3	0.3	0.3
Income received in advance	0.4	0.4	0.5
Interest bearing borrowings	0.0	0.0	0.0
Current tax liabilities	0.2	0.2	0.2
Total Current Liabilities	**4.5**	**4.6**	**5.6**
Trade and other payables	**1.4**	**1.4**	**0.0**
Long Term Provisions	0.1	0.1	0.1
Total Non-Current Liabilities	**1.4**	**1.4**	**0.1**
TOTAL LIABILITIES	**5.9**	**6.1**	**5.6**
NET ASSETS	**20.5**	**23.9**	**27.8**

CASH FLOW STAMENT			
Year to June	2011A	2012e	2013e
EBITDA	5.4	10.1	12.4
Decrease/(Increase) in Work. Cap	0.6	-0.6	0.7
Net Interest	0.0	0.1	0.2
Increase/(Decrease) in Provisions	0.3	0.0	0.0
Tax Paid	0.0	-2.1	-2.7
Other Op. Cash items	-1.2	1.0	0.0
Cash from Operations	**5.1**	**8.6**	**10.5**
Payments for PPE	3.2	3.4	3.6
Payment for acquisitions	2.7	0.0	1.5
Payment for intangibles	0.4	0.5	0.5
Invested in listed shares	0.0	0.0	0.0
Loan to subsidiary	0.0	0.0	0.0
Cash from Financing	**-6.3**	**-3.9**	**-5.6**
Incr/(Decr) in Equity	2.0	0.0	0.0
Incr/(Decr) in Debt	-0.1	0.0	0.0
Dividends paid	0.0	-1.5	-2.3
Cash from Investing	**1.9**	**-1.5**	**-2.3**
Net Cash	**0.7**	**3.1**	**2.7**

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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%

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

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