



Overview & Investment Thesis:

- SP Ausnet benefits from a toll road type of business model as the company does not purchase or sell electricity or gas, with about 90% of its revenue base being regulated. The regulated natural monopolies, making up a A\$6.3 billion Regulated Asset Base, represent critical infrastructure assets and provide stable and predictable earnings power and high sustainable dividends.
- 3 energy networks, 100% owned and located in Victoria; electricity transmission, electricity and gas distributions. Over 1.2 million consumer connections.
- The electricity transmission network carries electricity from power stations to electricity distributors across Victoria via about 13,000 high voltage towers spanning roughly 6,500km. The electricity distribution network carries electricity from the high voltage transmission grid to approximately 630,000 customers across Eastern Victoria over a 48,000km length. The gas distribution network transports gas to about 590,000 customers in Central and Western Victoria over some 9,800km in length. The Select Solution division provides end-to-end services to a variety of customers; those services include gas and water metering services, condition monitoring, chemical testing, electrical calibration and vegetation management.
- The company enjoys 100% ownership of quality assets, at the top of the efficiency and reliability scale in Australia. The Victorian transmission network is pivotal for the national transmission network, having a meshed structure (as opposed to linear for most of the Australia).
- SP Ausnet's revenues and tariffs are set in real terms, with inflation being a regulatory pass-through, making its common stock a good inflation hedge.
- Singapore Power Limited (a wholly owned subsidiary of Temasek – the Singaporean sovereign fund) has a controlling interest in SP Ausnet and has provided responsible ownership, management and a solid credit rating.
- Relatively diversified (4 business lines) portfolio with staggered regulatory reset periods for the three regulated businesses; 90% of the revenue locked until 2013.
- High quality management, with members of the executive team having long standing industry experience and a track record of delivering both operating and financial performance.
- The company has made safety the number one priority, with training and capital expenditure additions undertaken and envisioned for the future. One of the major risks in operating electricity networks in the state of Victoria are bush fires, with a 2009 series of bush fires being currently under review by a Royal Commission. Recommendations are likely to follow to make the electricity network even safer. From a liability perspective, SP Ausnet has liability insurance which specifically provides cover for bush fire liability, the cover for which is reviewed annually and premium of which is a regulator pass-through.
- The company has a well diversified and temporally spaced portfolio of borrowings amounting to \$4.4bn, equivalent to a net gearing of 59%. The borrowings include Australian dollar medium term notes, as well as debt denominated in US dollar, Hong Kong dollar, British pound and Swiss franc, all hedged back to Australian dollar. The company also hedges virtually all the interest rate risk through interest rate swaps.

Business Description:

SP AusNet has 100% ownership and operates an electricity transmission network across the Australian state of Victoria, as well as electricity distribution and gas distribution networks in and around Melbourne, Victoria. SP AusNet was publicly listed on the Australian and Singapore stock exchanges in December 2005. SP AusNet plays a vital role in the energy supply industry of Victoria, delivering a full range of energy related products and services to industrial and domestic customers. The group is headquartered in Melbourne, Australia, and employs 1,500.

Industry Growth Drivers/Trends:

- Australia has been enjoying a robust economic environment and has been fostering attractive economic policies, recognized by investors. Metropolitan Melbourne, to which SP Ausnet provides electricity transmission services and to some extent electricity distribution and gas distribution services, is one of the most vibrant cities of the world. The area sustained one of the highest population increases, economic growth and job creation rate of any Australian city in the last decade, being the home of five of the six largest publicly traded Australian companies, based on market capitalization. As more people need access to electricity and gas, the company's Regulated Asset Base ("RAB") is set to increase, leading to an increase in revenues.
- The RAB is driven by demand growth, safety enhancements, maintenance and modernization.
- Unregulated business growth (Select Solutions) is driven by internal competencies, which could be leveraged to enhance the efficiency and reliability of third party (electricity, gas, water) utilities.
- Capital expenditures for the fiscal 2011 reached roughly \$630 million, of which about \$305 million was company initiated. Projects focused mostly on up-grading and replacing zone substation assets for the electricity distribution business, on upgrading substation equipment and transformers for the electricity transmission business and on replacing gas pipes made from cast iron, unprotected steel and PVC, to enhance the networks' safety and reliability. Capital expenditures roll into the RAB at the beginning of each regulatory reset and, as long as it exceeds the regulatory depreciation, contribute to revenue growth.
- SP Ausnet has spent \$220 million for the advanced metering infrastructure (AMI) program roll-out, mandated by the Victorian government and which is set to be completed by the end of the calendar 2013 and cost a total of \$500 million, to be subsequently included in the company's RAB.

Competitive Advantages:

- Regulated business; the ability to compete is mainly on the financing side, where the company enjoys an "A-" credit rating compared to most peers at "BBB".
- The financial strength and operational experience of SP Ausnet's parent company, Singapore Power Limited (controlled by Temasek, the Singaporean sovereign fund).
- Key competencies on the unregulated side.

Competitors:

- **Electricity transmission:** Regulated monopoly at the Victorian state level.
- **Electricity distribution:** Competition is geographically constrained by regulation with 5 distribution network service providers.
- **Gas distribution:** Competition is geographically constrained by regulation with 3 gas distribution service providers.

Barriers to Entry:

- Regulated natural monopoly.

Customers:

- The electricity distribution network deals with electricity retailers and some large customers, charging them regulated rates; it reaches about 630,000 end-users.
- The gas distribution network deals with gas retailers and some large customers, charging them regulated rates; the group's gas distribution network reaches some 590,000 end-users.
- The electricity transmission network is centrally located among the five eastern states of Australia that form the National Electricity Market; it charges the Australian Energy Market Operator, distribution network service providers and power generators.
- Select Solutions division's customers comprise the other segments of SP Ausnet, as well external parties such as electricity, water and gas utility owners and operators.



Officers and Directors:

Leadership team: Ng Kee Choe, Non-Executive Chairman of Board; Nino Ficca, CEO, Managing Director; Geoff Nicholson, CFO, General Manager – Finance and Strategy; John Azaris, General Manager – Operations and Services; Norm Drew, Group General Manager – Integrated Network Services; Charles Popple, Group General Manager – Networks Strategy and Development; John Kelso, General Manager – Select Solutions.

Corporate Governance:

- **9 member board** – of which 4 are independent; the functions of Chairman of the Board and Managing Director are separated.
- Singapore Power Limited acquired the Victorian transmission business from GPU Electric in 2000 and the electricity and gas distribution business from TXU in 2004, together with electricity generation and gas and electricity retail business subsequently divested. SP Ausnet was launched in June of 2005, while the initial public offering took place in December of 2005. Singapore Power Limited, through its wholly owned subsidiary, Singapore Power International Pte Ltd, maintained a 51% controlling stake.
- Management of the stapled group is being provided, under a Management Services Agreement, by SPI Management Services Pty Ltd, a wholly owned subsidiary of the Singapore Power Limited, which ensures the alignment of interest between the management and the ownership of the company. The management fee for fiscal 2011 amounted to \$37.1mm or 4.3% of the group earnings before interest, tax, depreciation and amortization. The management fees include a performance fee which is capped at 0.50% of the group's market capitalization.
- The group's environmental, social and governance (ESG) disclosure metrics, as measured by Bloomberg, have improved over recent years; the company scores in line with other companies in its industries.
- The company as a group has issued a sustainability report since 2008 using the Global Reporting Initiative (GRI) guidelines and starting in 2010 the reports have been subject of limited independent assurance.

Ownership:

Insiders/Strategic holder (Singapore Power Limited) owns 0.09%/51% of outstanding shares. Notable other holders include: Blackrock Advisors (UK) Limited – 0.77%, QIC Limited – 0.68%, Aberdeen Asset Management (Australia) Ltd – 0.64%, Blackrock Institutional Trust Cp – 0.51% and AMP Capital Investors – 0.34%.

Capital Allocation/Uses:

- Company is committed to maintaining an "A" range credit rating, for which it needs to maintain: (i) a Net Debt to Regulated Asset Base ratio of below 80%, currently at 71%, and (ii) an interest coverage of above 2.4x – 2.5x, currently at 2.8x. Current capital structure is seen as stable for the next 10 years, given current regulatory pathway and capital expenditure commitments.
- The company aims for sustainable distributions, with the most recent dividend of \$0.08 per share representing a pay-out ratio of 90% of the free cash flows. The company implemented a dividend reinvestment program (DRP), which met good adoption from the security holders, running at about 30% of the gross distributions; the company retained \$75mm or 34% of its declared distributions (\$218mm) in the 2011 fiscal year.
- SP Ausnet aims to fully cover its maintenance capital through its operating cash-flows, as well as a part of the growth capital expenditure, with the balance being dedicated to shareholder distributions. Growth and maintenance capital expenditure have generally been in a 60%/40% proportion.

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Business Segments:

Business Mix	Revenues (%)		Operating Profit (%)	
	2010	2011	2010	2011
Electricity Distribution	39.6%	42.2%	27.4%	29.3%
Electricity Transmission	38.9%	36.4%	50.7%	47.7%
Gas Distribution	14.2%	13.5%	20.7%	20.6%
Select Solution	8.2%	13.1%	1.3%	2.3%
Inter-segment Eliminations	(1.0%)	(5.3%)	0%	0%

Financial Statement Summary: (AUD MM, years ended March 31)

Income Statement	2009	2010	2011
Total Revenue	1,169	1,334	1,468
Normalized EBIT	514	557	639
Normalized Net Income (cont. ops)	184	208	257
Normalized Fully Diluted EPS (cont. ops)	0.01	0.01	0.02
Return on Equity (cont. ops)	7.3%	8.4%	9.0%
Balance Sheet			
Net Debt	4,485	3,936	4,324
Common Equity	2,228	2,774	2,865
Net Debt: Common Equity	66.8%	58.7%	60.2%

Key Profitability Ratios and Figures:

Y/E September 30	2009	2010	2011
Operating Margin	43.9%	41.7%	43.5%
Interest Coverage	2.9x	2.9x	2.5x
Return on Equity (cont. ops)	7.3%	8.4%	9.0%
S&P Credit Rating	A-	A-	A-

Sourced from Thomson Reuters, Company Filings, PIC.

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