AGL Energy Subordinated Notes

**Security Issue Size**
- Average Daily Turnover: $0.51m
- Last price: A$104.00
- Fair value: A$105.11
- Fair margin: 255 bp

**Issuer Details**
- Issuer: AGL Energy Limited (AGL)
- Face Value: $100.00
- Issue Date: 4 April 2012
- Call Date: 8 June 2019
- Term to Call: 3.9 years
- Maturity Date: 8 June 2039

**Distribution Details**
- Dist. Rate: 3.80% + 90d
- Payable: Quarterly
- Franking: 0%
- Current coupon: 6.13%
- Next distribution: 28 Aug 15

**Financial Covenants**
- Interest Cover: > 3.0x
- Leverage ratio: < 4.0x

**Company Financials**

<table>
<thead>
<tr>
<th></th>
<th>Jun 10</th>
<th>Jun 11</th>
<th>Jun 12</th>
<th>Jun 13</th>
<th>Jun 14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (A$m)</td>
<td>6,609.9</td>
<td>7,071.8</td>
<td>7,454.0</td>
<td>9,714.8</td>
<td>9,542.0</td>
</tr>
<tr>
<td>EBITDA (A$m)</td>
<td>690.8</td>
<td>762.0</td>
<td>874.7</td>
<td>1,307.8</td>
<td>1,300.0</td>
</tr>
<tr>
<td>NPAT (A$m)</td>
<td>356.1</td>
<td>558.7</td>
<td>114.9</td>
<td>388.7</td>
<td>570.0</td>
</tr>
<tr>
<td>Operating Cashflow (A$m)</td>
<td>495.5</td>
<td>667.9</td>
<td>208.4</td>
<td>262.3</td>
<td>498.0</td>
</tr>
<tr>
<td>Gross Debt (A$m)</td>
<td>900.8</td>
<td>1,073.0</td>
<td>4,353.8</td>
<td>3,839.0</td>
<td>3,714.0</td>
</tr>
<tr>
<td>Total Equity (A$m)</td>
<td>5,799.9</td>
<td>6,341.5</td>
<td>7,022.9</td>
<td>7,339.0</td>
<td>7,587.0</td>
</tr>
<tr>
<td>Debt / EBITDA</td>
<td>130x</td>
<td>154x</td>
<td>4x</td>
<td>238x</td>
<td>286x</td>
</tr>
<tr>
<td>EBITDA / Int Exp</td>
<td>8.6x</td>
<td>9.8x</td>
<td>8.76x</td>
<td>5.99x</td>
<td>5.99x</td>
</tr>
<tr>
<td>Gearing (ND/E)</td>
<td>3.4%</td>
<td>19%</td>
<td>315%</td>
<td>36.0%</td>
<td>37.7%</td>
</tr>
</tbody>
</table>

**Security Details**
The AGL Notes are a subordinated note that pays quarterly, cumulative coupons based on a rate of 3.80% above the 90d BBSW. The security has a final maturity date of 8 June 2039 but is redeemable by the issuer on the Step-up date of 8 June 2019. If not redeemed on this date, the coupon rate will increase by 0.25% per annum. The security has been afforded equity credit by the rating agencies which will be lost if the security is left outstanding past the call date. While coupons are cumulative they are subject to payment tests and may be deferred in these tests are failed.

**Key Credit Positives**
- A significant generation portfolio which would benefit significantly from an increase in wholesale electricity prices.
- AGL recently issued $700m of senior debt at fixed coupon rate of 5.00% to refinance existing debt.

**Key Credit Negatives**
- Uncertain demand across in the national electricity market with poor customer demand and solar system installations remaining solid.
- Competition in the retail space with potential customer churn.

**Financial Commentary**
Despite some positive developments (eg retail deregulation, lower churn), the electricity industry remains under pressure (demand continues to decline and generation remains oversupplied) and the outlook remains uncertain, with the balance of risks to the downside. We expect retail electricity earnings to remain pressured (to be somewhat offset by improved gas margins).

**Price Performance**

**Rec Recommendation**
- ADD
- HOLD
- REDUCE
Morgans was a Joint Lead Manager to the Issue of the Suncorp Subordinated Notes and received fees in this regard. Morgans was a Joint Lead Manager to the Issue of the NAB CPS2 and received fees in this regard. Morgans was a Joint Lead Manager to the Issue of the ANZ Capital Notes and received fees in this regard. Morgans was a Joint Lead Manager to the Issue of the ANZ Capital Notes II and received fees in this regard. Morgans was a Joint Lead Manager to the Issue of the Macquarie Capital Notes and received fees in this regard. Morgans was a Joint Lead Manager to the Issue of the Suncorp Subordinated Notes II and received fees in this regard. Morgans was a Joint Lead Manager to the Issue of the AMP Subordinated Notes II and received fees in this regard. Morgans was a Joint Lead Manager to the Issue of the WBC Subordinated Notes II and received fees in this regard. Morgans was a Participating Broker to the Issue of the WBC Capital Notes and received fees in this regard. Morgans was a Joint Lead Manager to the CommBank PERLS VII Capital Note Offer and received fees in this regard.