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COMPANY REPORT

BigAir Group Limited

30th August 2011

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

Acquisitions to deliver in FY12

Recent News

BigAir Group Limited [ASX:BGL] announced FY11 EBITDA growth of 69% to $5.4m, with strong organic growth and acquisitions delivering as expected.

Following the acquisition

Event

- **FY11 results:** FY11 EBITDA rose 69% to $5.4m, ahead of previous guidance of $5.2m on the back of 105% increase in revenue to $15.5m. Strong contribution from recent acquisitions and solid organic revenue growth continues to be the theme.

View

- **Acquisitions on track to deliver in FY12:** We note BGL's July revenue and EBITDA run-rate of $23m and $9m respectively. We believe this is conservative given our forecast of 48% revenue growth in the fixed wireless division and 79% revenue growth in the community broadband division.
- **FY12 Watershed Year:** We forecast BGL will deliver revenue growth of 55% to $24.1m, 94% jump in EBITDA to $10.5m and a 233% increase in NPAT to $5.1m.
- **Operating cost savings on track:** Management has identified $2.1m in total annual operating cost savings, of which $1.1 have already been extracted; the remaining $1m is expected to be delivered in FY12. We believe management's guidance of 40% EBITDA margin for FY12 is conservative but note their longer-term goal of achieving 50% EBITDA margin.

Valuation

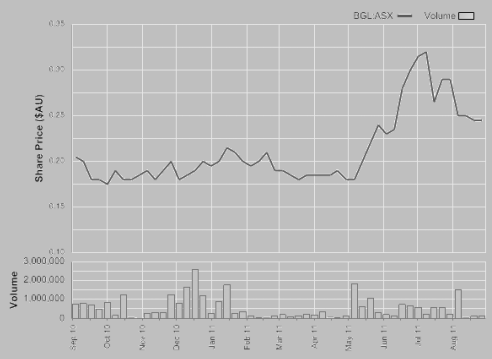
We upgrade our price objective from $0.30 to $0.44, a 73% premium to the last traded price of $0.255. We maintain a **STRONG BUY** recommendation. We reiterate that the FY11 result is distorted by the timing of a number of acquisitions and one-off acquisition costs. FY12 will see a full year contribution from BigAir's newly acquired businesses resulting in a significant uplift in EBITDA and NPAT. BGL continues to trade on a very low FY12 EV/EBITDA multiple of 3.4x considering the significant growth in earnings going forward. Additionally the company represents one of the fastest growing listed telco businesses, the market continues to underprice the company.

BGL | **STRONG BUY**

Price Objective: **$0.44**

Last traded	A$	0.255
Market Cap	A$'m	38.4
Nº of Shares	m	150.8
2011A EPS	¢	1.2
2012e EPS	¢	3.4
2012e PE	x	7.2
2012e EV/EBITDA	x	3.2
DPS 2012e	¢	1.00
Div Yield 2012e	%	3.9%
Revenue 2011A	m	15.5
Revenue 2012e	m	24.1
EBITDA 2011A	m	5.4
EBITDA 2012e	m	10.5
NPAT 2011A	m	1.5
NPAT 2012e	m	5.1

Share Price | 1 Year



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CLEVER ACQUISITION

BigAir's result shows six months of consolidation from the Clever acquisition. Revenue contribution in FY11 of $3.6m surpassed our expectations and we expect further revenue synergies to deliver FY12 contribution of approximately $7.4m.

Operating expenditure savings

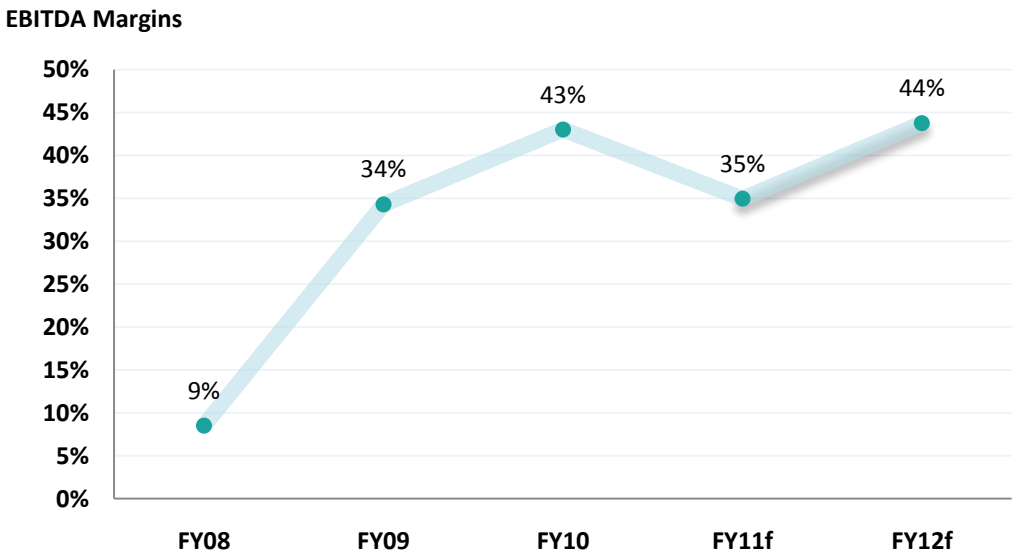
$2.1m in annual operating cost savings from the Clever acquisition were originally identified. Management believes a further $1m will be realised over the course of the FY12 with savings made in occupancy costs, admin, billing systems, CRM systems and network synergies.

A further $1m in annual cost savings will be realised by FY12.

Margin Expansion

FY11 EBITDA margin came in line with our forecasts at 35%, down from 43.2% in FY10. 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 recognized. Going forward, we expect EBITDA margins to expand significantly to 44% in FY12 as more than $1m in further annual operating cost synergies are realised from the Clever acquisition and full year contribution from Clever and Access Plus. Management have indicated to us that an EBITDA margin of around 50% is BGL's target within the next 3 years

EBITDA margin expansion from FY12 onwards due to opex saving. Management believe 50% EBITDA margins is achievable in medium term.



SOURCE: COMPANY DATA, MICROEQUITIES FORECASTS

ACCESS PLUS & STAR TECH

Access Plus contributed just under 6 months of revenue in FY11. Revenue came in at $1.35m, slightly below management guidance of $1.5m. We downgrade our FY12 revenue forecasts for AccessPlus to

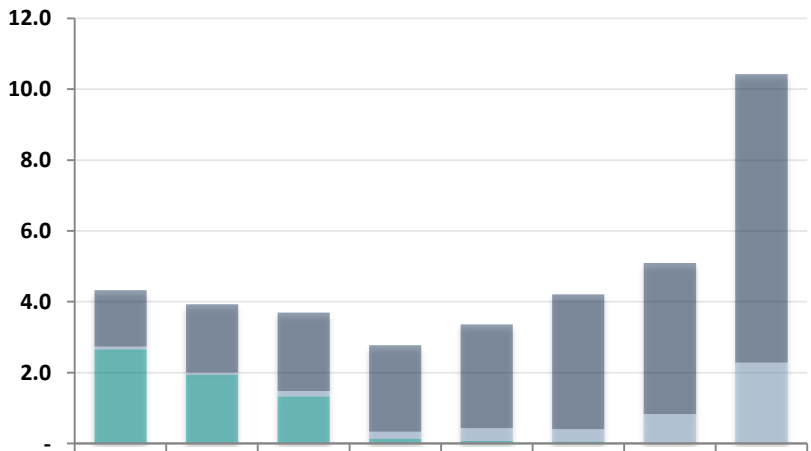
$3.5m from $3.9 revenue. We believe the high Australian Dollar has dampened overseas student numbers, with a slight flow on effect to revenue growth. Combined with the Star Tech Communications division, we believe total community broadband revenue will come in around $5.7m, a lift of 78% from FY11. We note the potential for additional expansion into new housing colleges in mid FY12, providing potential upside to our forecast. Although management has mentioned the potential to expand into mining and defence, we do not foresee any material earnings impacts in FY12.

Organic Growth Still Strong

We have upgraded growth assumptions for BigAir's fixed wireless business.

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. Management have noted that stronger organic growth can be expected in FY12 as integration of recent acquisitions draw to a close. We upgrade FY12 revenue growth from BGL's legacy business to 25% from 18% previously, considering the business is still expanding its geographic footprint across the major capitals, a number of new regions such as the Sunshine Coast and regional areas which management believes represents a lucrative opportunity.

Half Yearly Revenue Contribution by Segment ('000)



	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, Microequities forecasts

Dividend Policy

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.

FY12 Forecasts Upgrades

We have updated our model to reflect the stronger organic growth and a full year contribution from recent acquisitions. We raise FY12 BGL's legacy 'on-net fixed wireless' revenue growth forecasts from 18% to 25% after strong trading in FY11. We forecast $3.5m revenue contribution in FY12 from AccessPlus and $2.2m in FY12 from Star-Tech Communications representing strong growth on FY11 results with a number of potential new clients in the university student residential accommodation segment. Even most significantly, a full year's contribution from recent acquisitions will flow through in FY12 and we believe this will result in strong top line and bottom line growth and margin expansion.

Our Forecasts

Figures in A$'mn	2011(F)	2011(A)	2012(F) Old	2012(F) New	2013(F)
Revenue	15.22	$15.52	23.16	$24.08	$27.76
COGS	4.17	$4.58	5.96	$5.92	$6.77
Operating Expenses	5.86	$8.71	6.93	$7.69	$8.05
Depreciation & Amort	2.53	$2.53	3.27	$3.29	$2.91
EBITDA	**$5.36**	**$5.42**	**10.49**	**$10.54**	**$12.94**
EBITDA MARGIN	*35%*	*35%*	*45.3%*	*43.8%*	*46.6%*
EBITDA Growth YOY	*64%*	*66%*	*96%*	*94%*	23%
EBIT	**2.83**	**$2.35**	**7.22**	**$7.25**	**$10.03**
EBIT Margin	*19%*	15%	*31%*	30%	36%
Net Interest Rec./(Paid)	0.18	$0.06	0.22	$0.07	$0.27
Profit Before Tax	2.65	$2.29	7.00	$7.18	**$9.76**
Tax	-0.77	-$0.81	-2.03	-$2.08	-$2.82
Net Profit to members	**1.89**	**$1.53***	**4.97**	**$5.10**	**$6.94**

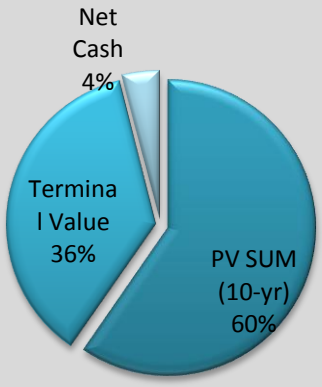
*Reported NPAT

SOURCE: MICROEQUITIES FORECASTS

VALUATION | RECOMMENDATION

DCF valuation

Our DCF valuation reflects continued organic growth from legacy divisions and newly acquired businesses. We have also factored in synergistic benefits in the acquired businesses to be steadily realised from FY12, and increasing EBITDA margins. Recent declines in the risk free rate and the lowering of our fundamental BETA to better reflect the profitable track record of BGL has resulted in uplift in our DCF. Our DCF valuation of $0.46 represents an 80% premium to the current trading price of $0.255.



DCF Inputs			*As at 29th August 2011*
Equity Beta:	1.33	**Interest-bearing Debt:**	-
Risk free rate:	4.42%	**Cost of Debt:**	-
Return on Equity:	14.36%	**WACC:**	14.36%
LT Growth Rate:	3.00%		

Relative EV/EBITDA valuation

Figure 2: Peer group financial summary (*as at August 29th 2011)*

We have undertaken a relative valuation using the most appropriate peer comparisons available. Using a peer average forecast FY12 EV/EBITDA multiple of 5.6x, we have derived a relative valuation of $0.41 per share, representing a 61% premium to the current market price.

Investment Opinion

We maintain a **STRONG BUY** recommendation and increase our price objective to **$0.44** representing a 73**%** premium to the last traded price of $0.255 (As at 29th August 2011). As stated previously readers should note that due to the timing of the acquisitions there will be a significant uplift in earnings in FY12. We forecast a 94% increase in BigAir's EBITDA earnings for FY12.

PRICE OBJECTIVE & RECOMMENDATION HISTORY

Changes to recommendations and/or price objectives			
Date	**Recommendation**	**Price at time of Rec**	**Price Objective**
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	24.1	27.8
Cost of Good Sold	4.6	5.9	6.8
Op. Expenses	8.7	7.7	8.1
EBITDA	**5.4**	**10.5**	**12.9**
% Change	*1.4*	*0.9*	*0.2*
% of Revenue	*0.3*	*0.4*	*0.5*
Depreciation & Amortisation	2.5	3.3	2.9
EBIT	**2.3**	**7.2**	**10.0**
% of Revenue	*0.2*	*0.3*	*0.4*
Net Interest Income (Expense)	0.1	0.1	0.3
EBT	**2.3**	**7.2**	**9.8**
Tax	-0.8	-2.1	-2.8
Net Profit	**1.5**	**5.1**	**6.9**

KEY RATIOS Year to June	2011A	2012e	2013e
Sales	15.5	24.1	27.8
% Chg YoY	*136%*	*55%*	*15%*
Price/Sales	2.4	1.5	1.3
EPS (cents)	**1.2**	**3.4**	**4.6**
% Chg YoY	*245%*	*182%*	*36%*
P/E	**20.4**	**7.2**	**5.3**
Enterprise Value	34.9	34.2	25.5
EV/EBIT	**14.8**	**4.7**	**2.5**
EV/EBITDA	**6.4**	**3.2**	**2.0**
DPS	0.00	1.0	1.5
Dividend Yield	0.0%	3.9%	5.9%
ROE	7%	20%	24%
Debt to Assets	0.0	0.0	0.0
Debt to Equity	0.0	0.0	0.0

BALANCE SHEET Year to June	2011A	2012e	2013e
Cash & cash equivalents	2.8	7.7	11.4
Receivables	0.9	1.4	1.7
Inventories	0.0	0.0	0.0
Other Assets	0.4	0.0	0.0
Total Current Assets	**4.1**	**9.2**	**13.1**
Trade and other receivables	0.1	1.4	1.7
Property, Plant & Equipment	7.8	8.0	8.3
Deferred tax assets	1.0	0.0	0.0
Goodwill	11.3	11.3	11.3
Other intangible assets	2.2	2.1	2.1
Total Non-Current Assets	**22.4**	**22.9**	**23.4**
TOTAL ASSETS	**26.5**	**32.1**	**36.5**
Trade and other payables	3.6	5.8	6.7
Provisions	0.3	0.3	0.3
Income received in advance	0.4	0.5	0.6
Interest bearing borrowings	0.0	0.0	0.0
Current tax liabilities	0.2	0.0	0.0
Total Current Liabilities	**4.5**	**6.5**	**7.5**
Trade and other payables	**1.4**	**0.0**	**0.0**
Long Term Provisions	**0.1**	**0.1**	**0.1**
Total Non-Current Liabilities	**1.4**	**0.1**	**0.1**
TOTAL LIABILITIES	**5.9**	**6.6**	**7.6**
NET ASSETS	**20.5**	**25.5**	**28.9**

CASH FLOW STAMENT Year to June	2011A	2012e	2013e
EBITDA	5.4	10.5	12.9
Decrease/(Increase) in Work. Cap	0.6	1.7	0.7
Net Interest	0.0	0.1	0.3
Increase/(Decrease) in Provisions	0.3	0.0	0.0
Tax Paid	0.0	-2.1	-2.8
Other Op. Cash items	-1.2	1.0	0.0
Cash from Operations	**5.1**	**11.2**	**11.1**
Payments for PPE	3.2	2.9	3.1
Payment for acquisitions	2.7	1.4	1.6
Payment for intangible assets	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**	**-4.8**	**-5.1**
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
	1.9	**-1.5**	**-2.3**
Cash from Investing	**0.7**	**4.9**	**3.7**
Net Cash	1.2	2.0	6.9
Opening Cash Balance	**2.0**	**6.9**	**10.6**
Closing Cash Balance	5.4	10.5	12.9

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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	✓

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- Microequities Asset Management Pty Ltd and associated parties are substantial shareholders of BigAir Group Limited