Ecoslops

Other Energies / France

On the right course with clearer waters ahead

Earnings/sales releases - 09/04/2019

Pierre-Yves GAUTHIER
oils@alphavalue.eu
+33 (0) 1 70 61 10 50
cs.alphavalue.com

Ecoslops announced a solid set of results for 2018, delivering 23% revenue growth, despite only 9 months of real activity taking place as the Sines facility underwent alterations between January and March to allow for the treatment of lower flash-point waste. With the recent approval of an €18m loan from the EIB, smoother sailing in the ongoing construction of the Marseille project, and having Total now on board through a stake in Ecoslops Provence, the picture appears clearer for Ecoslops' objective of bringing oil into the circular economy wave.

Buy	Upside: 71.7%
Target Price (6 months)	€ 24.3
Share Price	€ 14.2
Market Cap. €M	73.0
Price Momentum	STRONG
Extremes 12Months	9.90 ▶ 16.5
Bloomberg	ALESA FP Equity
Reuters	ALESA.PA

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PERF	1w	1m	3m	12m
Ecoslops	4.04%	1.43%	14.6%	4.04%
Oils	2.48%	6.14%	9.97%	14.6%
STOXX 600	1.00%	4.57%	12.0%	3.39%

Last updated: 05/10/2018	12/17A	12/18E	12/19E	12/20E
Adjusted P/E (x)	-37.2	-33.8	ns	27.4
Dividend yield (%)	0.00	0.00	0.00	1.41
EV/EBITDA(R) (x)	ns	ns	32.1	16.2
Adjusted EPS (€)	-0.34	-0.39	0.04	0.52
Growth in EPS (%)	n/a	n/a	n/a	1,127
Dividend (€)	0.00	0.00	0.00	0.20
Sales (€th)	6,080	7,800	15,921	26,191
EBITDA/R margin (%)	5.43	-6.88	17.9	27.8
Attributable net profit (€th)	-1,350	-1,750	204	2,717
ROE (after tax) (%)	-8.00	-9.72	1.22	15.4
Gearing (%)	29.0	41.3	77.3	147

Company Valuation - Company Financials

Fact

- Revenues reached €7.5m in 2018 (+23% yoy) on total production of 19,000t. The improvement was mainly explained by a better product mix and more favourable oil prices.
- EBITDA generation from its current unique plant stood at €1.5m, an improvement of +7% yoy despite the 3-month production stoppage. At the group level, EBITDA remained stable (€-0.38m vs €-0.35m in 2017).
- On net profit, the company realised a €-1.5m loss in 2018, compared to €-1.35m in 2017. Financial charges increased by +€0.2m due to interest expenses from the loan with IAPMEI (Portugal's Competitiveness and Innovation Agency).
- Working capital needs saw a marked rise (+€1.2m), coming from a noticeably lower base in 2017 as the company had emptied its stock in preparation for the production stoppage of the Sines plant.
- Increased WC needs contributed to the lower cash flow generation in 2018; notwithstanding, the Portuguese subsidiary posted positive cash flow for the period (€0.26m) compared to €-0.35m at the group level. The cash balance stood at c.€8m at the end of 2018.
- With a first tranche of €10m from the €18m total loan granted by the EIB arriving in mid-2019, the balance sheet will be further strengthened, giving more than enough headroom for the company to fund new projects.

Analysis

Ecoslops' tough decision to halt operations for three months on its only plant, to make modifications allowing it to process lighter slops, has certainly paid off, with 25% of the +50% increase on the ASP/t coming from an improved product mix thanks to the tweaks made at the Sines plant. This has allowed the company to deliver solid top-line growth in only 9 months of real activity and points to a bright outlook in terms of future profitability and rotation towards higher quality (and, hence, higher marketability) products.

The latter point will certainly be the case for the refinery unit currently under construction at Total's La Mède complex. The know-how and lessons learned through the development and operation of the Sines plant will indubitably result in a more sophisticated second facility. The agreement to supply Total with naphtha oil wouldn't be possible without the capability to treat low flash-point slops, for example. On the same note, the product mix from the Sines plant has also improved (with an increase in Gasoil supply to GALP of 10% from 2016 to 2018), yielding higher ASPs and higher profitability. Ecoslops now expects a 25% EBITDA margin (excluding concessions), a statement that could have not been made a year or two ago.

The recent approval by the EIB for an €18m loan has also added a layer of credibility to Ecoslops' business model and value proposition for oil giants and other industrials, which are currently scrambling to address scope 3 carbon emissions. Total's recent stake (25%) in the Marseille project serves as proof of the oil industry's interest in the avoided carbon/circular economy paradigm.

On the operating charges front, diligent staff cost management in France and Portugal have helped narrow operating expenses despite a substantial increase on feedstock purchasing, as the company builds up its inventories in accordance to the increased level of activity. At the Marseille plant, higher automatisation will result in higher staff efficiency and more streamlined staff expenses, in keeping with the company's cost management efforts. Concerning feedstock, Ecoslops' second unit will rely on slops from land-based sources, which will demand higher prices as they are of higher quality, but this is expected to be offset by lower transportation costs using trucks (vs. boats in Sines).

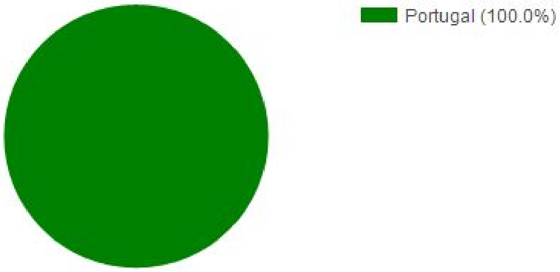
Future business expansion efforts remain set on Antwerp as a first priority, with the objective of initiating the technical studies in H2 19 once the required permits have been granted. Unlike their French counterparts, the Belgian authorities appear enthusiastic on the cleantech solution provided by Ecoslops, so we could expect swifter administrative approvals to get the facility up and running by 2021 once the studies are concluded. While the feasibility studies for a potential third refining unit on the Suez Canal reach a verdict, the company continues to develop its "refinery-in-a-box" concept (dubbed Mini-P2R), with the selection of a client to test the first prototype expected to take place in H2 19.

As mentioned in previous publications, the addressable market for this flexible refinery in a container, as well as the different business models that can be built around it (from build, own and operate to build and rent with a service contract attached or build and sell, etc.) presents itself as a huge expansion opportunity for Ecoslops. The tests of this first prototype at an actual client's installations will serve as the validation of this potential avenue for growth, something we will definitely watch out for come H2 19.

Impact

The later than expected entry into operation of the Marseille project (caused by delays obtaining the necessary administrative approvals) will contribute to a lower near-term outlook. Despite this, the valuation is bound to remain attractive, supported by a clearer picture in terms of project execution and expected profitability.

Sales by Geography



Valuation Summary

Benchmarks	Value	Weight
DCF	€ 25.6	40%
NAV/SOTP per share	€ 32.6	40%
P/E	€ 7.08	5%
EV/Ebitda	€ 2.01	5%
P/Book	€ 8.71	5%
Dividend Yield	€ 2.57	5%
TARGET PRICE	€ 24.3	100%

NAV/SOTP Calculation

Largest comparables

- Neste
- Galp Energia
- Saras
- Hellenic Petroleum
- Acciona

Consolidated P&L Accounts

		12/17A	12/18E	12/19E
Sales	€th	6,080	7,800	15,921
Change in sales	%	39.3	28.3	104
Change in staff costs	%	-27.9	6.12	53.8
EBITDA	€th	-331	-537	2,845
EBITDA(R) margin	**%**	**-5.44**	**-6.88**	**17.9**
Depreciation	€th	-1,120	-1,300	-2,000
Underlying operating profit	€th	-1,621	-1,837	845
Operating profit (EBIT)	**€th**	**-1,621**	**-1,837**	**845**
Net financial expense	€th	-118	-665	-1,422
of which related to pensions	€th		0.00	0.00
Exceptional items & other	€th	-18.5	0.00	0.00
Corporate tax	€th	408	752	781
Equity associates	€th	0.00	0.00	0.00
Minority interests	€th	0.00	0.00	0.00
Adjusted attributable net profit	**€th**	**-1,350**	**-1,750**	**204**
NOPAT	€th	-1,135	-1,286	592

Cashflow Statement

		12/17A	12/18E	12/19E
EBITDA	€th	-331	-537	2,845
Change in WCR	€th	-426	-1,081	-1,208
Actual div. received from equity holdi...	€th	0.00	0.00	0.00
Paid taxes	€th	0.00	752	781
Exceptional items	€th	0.00	0.00	0.00
Other operating cash flows	€th	267	-4,899	-5,676
Total operating cash flows	€th	-490	-5,765	-3,258
Capital expenditure	€th	-471	-2,800	-12,900
Total investment flows	€th	-471	-2,800	-12,900
Net interest expense	€th	-118	-665	-1,422
Dividends (parent company)	€th	0.00	0.00	0.00
Dividends to minorities interests	€th	0.00	0.00	0.00
New shareholders' equity	€th	10,471	44.6	9,705
Total financial flows	€th	4,912	15,710	24,306
Change in cash position	€th	3,951	7,145	8,147
Free cash flow (pre div.)	**€th**	**-1,079**	**-9,230**	**-17,580**

Per Share Data

		12/17A	12/18E	12/19E
No. of shares net of treas. stock (year...	Th	4,382	4,382	5,159
Number of diluted shares (average)	Th	3,946	4,452	4,844
Benchmark EPS	**€**	**-0.34**	**-0.39**	**0.04**
Restated NAV per share	€			
Net dividend per share	**€**	**0.00**	**0.00**	**0.00**

Balance Sheet

		12/17A	12/18E	12/19E
Goodwill	€th	0.00	0.00	0.00
Total intangible	€th	451	492	492
Tangible fixed assets	€th	17,034	18,160	29,060
Financial fixed assets	€th	19.1	19.1	19.1
WCR	€th	590	1,672	2,880
Other assets	€th	3,504	3,386	3,386
Total assets (net of short term liab.)	€th	23,726	25,880	37,988
Ordinary shareholders' equity	**€th**	**21,422**	**14,570**	**18,803**
Quasi Equity & Preferred	€th	0.00	0.00	0.00
Minority interests	€th	0.00	0.00	0.00
Provisions for pensions	€th		0.00	0.00
Other provisions for risks and liabilities	€th	187	0.00	0.00
Total provisions for risks and liabilities	€th	187	0.00	0.00
Tax liabilities	€th	0.00	0.00	0.00
Other liabilities	€th	699	705	705
Net debt (cash)	**€th**	**1,419**	**10,605**	**18,480**
Total liab. and shareholders' equity	€th	23,728	25,880	37,988

Capital Employed

		12/17A	12/18E	12/19E
Capital employed after depreciation	€th	18,095	20,343	32,451

Profits & Risks Ratios

		12/17A	12/18E	12/19E
ROE (after tax)	**%**	**-8.00**	**-9.72**	**1.22**
ROCE	%	-6.27	-6.32	1.82
Gearing (at book value)	**%**	**29.0**	**41.3**	**77.3**
Adj. Net debt/EBITDA(R)	x	-4.29	-19.8	6.50
Interest cover (x)	x	-13.7	-2.76	0.59

Valuation Ratios

		12/17A	12/18E	12/19E
Reference P/E (benchmark)	**x**	**-37.2**	**-33.8**	**ns**
Free cash flow yield	%	-1.94	-15.9	-24.1
P/Book	x	2.60	4.00	3.88
Dividend yield	**%**	**0.00**	**0.00**	**0.00**

EV Calculation

		12/17A	12/18E	12/19E
Market cap	€th	55,735	58,220	72,994
+ Provisions	€th	187	0.00	0.00
+ Unrecognised acturial losses/(gains)	€th	0.00	0.00	0.00
+ Net debt at year end	€th	1,419	10,605	18,480
+ Leases debt equivalent	€th	0.00	0.00	0.00
- Financial fixed assets (fair value)	€th			
+ Minority interests (fair value)	€th			
= EV	€th	57,341	68,825	91,474
EV/EBITDA(R)	**x**	**ns**	**ns**	**32.1**
EV/Sales	x	9.43	8.82	5.75

Analyst : Pierre-Yves Gauthier, Changes to Forecasts : 05/10/2018.