# Europlasma

Alternative Power Sources / France

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AlphaValue is contracted by Europlasma to provide equity research on Europlasma , using AlphaValue's unique and transparent methods and procedures. Target price and opinion are thus exclusively determined by those methods and procedures.

| Buy | Upside : 97.8% |
|---|---|
| Target Price (6 months) | € 0.65 |
| Share Price | € 0.33 |
| Market Capitalisation €M | 37.0 |
| Price Momentum | GOOD |
| Extremes 12Months | 0.21 ▶ 0.72 |
| Bloomberg | ALEUP FP Equity |
| Reuters | ALEUP.PA |

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| PERF | 1w | 1m | 3m | 12m |
|---|---|---|---|---|
| Europlasma | 0.00% | -5.71% | 26.9% | -54.2% |
| Capital Goods | 0.62% | 5.50% | 10.8% | 37.5% |
| STOXX 600 | 1.08% | 3.14% | 7.67% | 18.1% |

| Last updated: 12/01/2017 | 12/14A | 12/15A | 12/16E | 12/17E |
|---|---|---|---|---|
| Adjusted P/E (x) | -2.92 | -4.33 | -4.33 | 16.8 |
| Dividend yield (%) | 0.00 | 0.00 | 0.00 | 0.00 |
| EV/EBITDA(R) (x) | -9.72 | -8.36 | -4.05 | 0.56 |
| Adjusted EPS (€) | -0.57 | -0.24 | -0.12 | 0.02 |
| Growth in EPS (%) | n/a | n/a | n/a | n/a |
| Dividend (€) | 0.00 | 0.00 | 0.00 | 0.00 |
| Sales (€th) | 8,983 | 14,082 | 10,909 | 58,741 |
| Operating margin (%) | ns | -104 | -144 | 5.36 |
| Attributable net profit (€th) | -25,902 | -16,515 | -12,864 | 3,078 |
| ROE (after tax) (%) | -270 | -171 | -113 | 9.07 |
| Gearing (%) | 34.1 | 28.3 | -11.8 | -48.0 |

Company Valuation - Company Financials

## 2016's considerable pains open the way to a power generation future

Significant news - 04/05/2017

### Fact

2016 was another painful year for Europlasma with losses of €-17.3m (comparable to 2015) on sales of €9.7m (down 31%). These losses result from well understood (and since overcome) delays to the now successful bid to sort out technical issues at the power generation unit (CHO Power) with, on top, accidental production issues at the currently most cash generative business line (asbestos treatment by Inertam).

It finally looks like Europlasma's c.€60m cumulative loss between 2014 and 2016, essentially its engineering and development spend for CHO Power, will translate into an effective green power generation capability from this year as Europlasma has finally sorted the complex engineering for a project combining the production of clean synthetic gas from waste for use in power generation engines with the collection of residual heat and steam for even better efficiency. Becoming the world's first has been a challenging road, but one that should generate substantial rewards as its high efficiency renewable energy plants are rolled out.

### Analysis

Note that Europlasma is a small engineering group reorganised around three business lines. The smallest, but its original core business, is the design of plasma systems which are increasingly used to deal with dangerous waste. The most cash generative (for now), Inertam, is doing precisely that: handle asbestos waste by neutralizing it into a glass-like material thanks to plasma treatment. The most ambitious and cash hungry to date is to produce energy from waste by improving the quality of synthetic gases through the use of plasma torches.

All businesses have enormous underlying markets but all are complex engineering ventures with long lead times and their pace of growth depends on favourable but yet-to-be-ratified environmental regulations.

**CHO Power – green energy green light at last?**

The CHO Power engineering feat has experienced considerable technical delays with 2016 seeing the end of the costly prototyping exercise. The delivery and connection of GE-designed engines (Jenbacher units) that convert the synthetic gas into useful electrical power means that the first unit is now essentially up and running. The so-called Final Acceptance which means that all bits and pieces are up to scratch, including a steam to power converter, is due by H1-2017. This means that other copycat projects can enter the engineering stage, starting with the CHO Tiper in Western France. Another, known as CHO Locminé, (Brittany) is going through the final administrative stages. Both benefit from a regulatory framework that is attractive provided they are completed within a strict calendar. It may not be possible to meet this time constraint such that there is a risk that demands for benefit extensions may not be agreed.

In 2016, the waste to power subsidiary CHO Power lost another €-9.4m at the Ebit level (after €-11.2m in 2015) on essentially no turnover. The improvement was due to a provision reversal. The Ebitda loss was essentially unchanged at close to €-9m, reflecting engineering costs. The outlook is one in which these costs disappear as the unit is transferred to its owner and CHO Power starts charging a price for the actual operation of the unit. This revenue is linked to power output. CHO Power will also book the EPC related work on additional units (as long as they are not majority controlled, see full report please)

**Asbestos waste – Inertam**

The big negative in 2016 was the operating loss incurred by Inertam as it had to stop its processing plant for 3 months on health safety concerns. This is now behind us but had a huge opportunity cost in cash terms and led management to contemplate the provision of a spare furnace. The advantage of maintaining a relatively inexpensive spare furnace; it would enable the strong demand to be met by shortening maintenance down-times. This means increased profits and more regular cash flows. We understand that this can be implemented fairly rapidly so that planned 2018 downtime would be significantly reduced.

Inertam swung to an Ebitda loss of €-0.3m from a profit of €2.7m in 2015. The near €3m downswing is a good summary of the cost of that safety event in a year that should have been an excellent one for the division due to rising demand and reduced maintenance down-times. It is also a good example of the risk inherent in operating a single production line, something that should be largely mitigated when the spare furnace becomes available.

The outlook is obviously much better although the company will have to find the financing for the new unit.

**Engineering –Plasma torches**

The year was a modest one in sales terms but the long-term ongoing projects such as the treatment of low-grade radioactive materials (Bulgaria) and the neutralization of toxic ashes (China) appear to be progressing well, such that the outlook is one of a potentially widening margin. It is worth pointing out that headquarter costs are accrued to this division meaning that it is structurally in the red. The 2016 Ebitda loss for the business was €-0.4m vs. a reported figure of €-2.6m. 2017 may well see break-even for this business alone.

**Earnings implications/dilution**

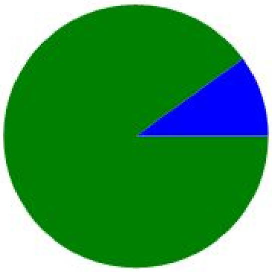
The 2016 losses have a double whammy impact as the lack of proper financing means that the company has had to resort to ad hoc equity issuance at a very large cost to other shareholders in terms of dilution. This is the price to pay to fund c. €60m of losses over the last 3 years, reflecting the spend to bring to fruition a waste to energy project that seems to have no equivalent elsewhere. The bulk of 2016's expensive financing was provided by Bracknor through its funds for a current total of €10m with a maximum at €15m Set up as a convertible issuance by callable tranches with near immediate conversion and subsequent selling of the equity exposure. The pay back for the risk taker will be paid in share warrants that strike at 90% of the previous few days price and convertible warrants with a maturity of 3 or 4 years. This is deeply dilutive but presumably the price to pay when hitting a liquidity wall. The number of shares which stood at slightly below 70m at the close of 2015 had moved up to 112m by end 2016 and could potentially hit 194m as Europlasma group closed 2016 with c. €-3.5m equity and has yet to fund its expansion. Conceivably, however, much improved financing sources will be available at this point, and the disclosed interest of the European Investment Bank for CHO Tiper, presumably not limited to one plant, suggests the capital requirement for future growth could be lower than originally expected. In many respects, the worse of the cash drain seems to be behind us meaning that the ultimate dilution may not be as bad as quoted above.

## Impact

We had expected sales of €11m, or about €1m above the final number. The pre tax loss at €17.3m was effectively about €1m above our guesswork. Part of the shortfall on the bottom line was due to Europlasma making a small deferred tax payment in 2016 (non cash) whereas we had plugged a tax credit into our models. Looking forward, the worse of the transformation pain seems behind us but forecasting remains a high wire exercise as four moving parts combine: timing of the first power generation revenues, timing of the EPC work related to the next two power plants, operating/strategic choices about the ownership of future projects and, guess what, funding costs.

We are in the process of updating our forecasts, a complex exercise if ever there was one (again please see full report). The three key dates for the assessment of the 2017 cash generation will be the actual date of transfer of the first power unit to its owner, the effective start-up date of engineering work on unit 2 and 3 and the return to full capacity of Inertam.

## Sales by Geography




## Valuation Summary

| Benchmarks | Value | Weight |
|---|---|---|
| DCF | € 0.85 | 35% |
| NAV/SOTP per share | € 0.62 | 20% |
| EV/Ebitda | € 0.66 | 20% |
| P/E | € 0.66 | 10% |
| Dividend Yield | € 0.00 | 10% |
| P/Book | € 0.66 | 5% |
| TARGET PRICE | € 0.65 | 100% |

NAV/SOTP Calculation

**Largest comparables**

- Gea Group
- Suez
- Elecnor
- ERG

## Consolidated P&L Accounts

| | | 12/15A | 12/16E | 12/17E |
|---|---|---|---|---|
| Sales | €th | 14,082 | 10,909 | 58,741 |
| Change in sales | % | 56.8 | -22.5 | 438 |
| Change in staff costs | % | 27.6 | 0.00 | 4.76 |
| EBITDA | €th | -9,068 | -10,324 | 7,246 |
| **EBITDA(R) margin** | **%** | **-64.4** | **-94.6** | **12.3** |
| Depreciation | €th | -3,274 | -3,975 | -3,500 |
| Underlying operating profit | €th | -14,754 | -15,722 | 3,146 |
| **Operating profit (EBIT)** | **€th** | **-14,942** | **-15,722** | **3,146** |
| Net financial expense | €th | -140 | -800 | -200 |
| of which related to pensions | €th | | 0.00 | 0.00 |
| Exceptional items & other | €th | | | |
| Corporate tax | €th | -1,296 | 3,658 | -408 |
| Equity associates | €th | -137 | 0.00 | 540 |
| Minority interests | €th | 0.00 | 0.00 | 0.00 |
| **Adjusted attributable net profit** | **€th** | **-16,515** | **-12,864** | **3,078** |
| NOPAT | €th | -10,465 | -11,005 | 2,742 |

## Cashflow Statement

| | | 12/15A | 12/16E | 12/17E |
|---|---|---|---|---|
| EBITDA | €th | -9,068 | -10,324 | 7,246 |
| Change in WCR | €th | -3,357 | 861 | -500 |
| Actual div. received from equity holdi... | €th | 0.00 | 0.00 | 0.00 |
| Paid taxes | €th | -526 | 3,658 | -408 |
| Exceptional items | €th | | | |
| Other operating cash flows | €th | 800 | 1,000 | 1,000 |
| Total operating cash flows | €th | -12,151 | -4,805 | 7,338 |
| Capital expenditure | €th | -2,275 | -2,200 | -2,400 |
| Total investment flows | €th | -2,275 | -8,200 | -8,400 |
| Net interest expense | €th | -140 | -800 | -200 |
| Dividends (parent company) | €th | | | |
| Dividends to minorities interests | €th | 0.00 | 0.00 | 0.00 |
| New shareholders' equity | €th | 466 | 30,000 | 26,000 |
| Total financial flows | €th | 7,557 | 28,200 | 22,800 |
| Change in cash position | €th | -6,869 | 15,195 | 21,738 |
| **Free cash flow (pre div.)** | **€th** | **-14,566** | **-7,805** | **4,738** |

## Per Share Data

| | | 12/15A | 12/16E | 12/17E |
|---|---|---|---|---|
| No. of shares net of treas. stock (year... | Th | 69,667 | 98,650 | 131,150 |
| Number of diluted shares (average) | Th | 69,356 | 103,196 | 156,255 |
| **Benchmark EPS** | **€** | **-0.24** | **-0.12** | **0.02** |
| Restated NAV per share | € | | | |
| **Net dividend per share** | **€** | **0.00** | **0.00** | **0.00** |

## Balance Sheet

| | | 12/15A | 12/16E | 12/17E |
|---|---|---|---|---|
| Goodwill | €th | 1,316 | 1,500 | 1,700 |
| Total intangible | €th | 1,630 | 1,814 | 2,014 |
| Tangible fixed assets | €th | 11,500 | 12,000 | 13,000 |
| Financial fixed assets | €th | 3,549 | 6,000 | 10,000 |
| WCR | €th | 2,861 | 2,000 | 2,500 |
| Other assets | €th | 1,118 | 2,000 | 2,000 |
| Total assets (net of short term liab.) | €th | 27,171 | 29,814 | 35,514 |
| **Ordinary shareholders' equity** | **€th** | **2,495** | **20,200** | **47,637** |
| Quasi Equity & Preferred | €th | | | |
| Minority interests | €th | 100 | 100 | 100 |
| Provisions for pensions | €th | 400 | 0.00 | 0.00 |
| Other provisions for risks and liabilities | €th | 6,800 | 8,000 | 10,000 |
| Total provisions for risks and liabilities | €th | 7,200 | 8,000 | 10,000 |
| Tax liabilities | €th | -362 | -2,000 | -2,000 |
| Other liabilities | €th | 12,054 | 14,000 | 15,000 |
| **Net debt (cash)** | **€th** | **5,709** | **-10,486** | **-35,223** |
| Total liab. and shareholders' equity | €th | 27,196 | 29,814 | 35,514 |

## Capital Employed

| | | 12/15A | 12/16E | 12/17E |
|---|---|---|---|---|
| Capital employed after depreciation | €th | 19,540 | 21,814 | 27,514 |

## Profits & Risks Ratios

| | | 12/15A | 12/16E | 12/17E |
|---|---|---|---|---|
| **ROE (after tax)** | **%** | **-171** | **-113** | **9.07** |
| ROCE | % | -53.6 | -50.5 | 9.97 |
| **Gearing (at book value)** | **%** | **28.3** | **-11.8** | **-48.0** |
| Adj. Net debt/EBITDA(R) | x | -0.63 | 1.02 | -4.86 |
| Interest cover (x) | x | -105 | -19.7 | 15.7 |

## Valuation Ratios

| | | 12/15A | 12/16E | 12/17E |
|---|---|---|---|---|
| **Reference P/E (benchmark)** | **x** | **-4.33** | **-4.33** | **16.8** |
| Free cash flow yield | % | -20.3 | -14.6 | 10.9 |
| P/Book | x | 28.8 | 2.64 | 0.91 |
| **Dividend yield** | **%** | **0.00** | **0.00** | **0.00** |

## EV Calculation

| | | 12/15A | 12/16E | 12/17E |
|---|---|---|---|---|
| Market cap | €th | 71,886 | 53,288 | 43,280 |
| + Provisions | €th | 7,200 | 8,000 | 10,000 |
| + Unrecognised acturial losses/(gains) | €th | 0.00 | 0.00 | 0.00 |
| + Net debt at year end | €th | 5,709 | -10,486 | -35,223 |
| + Leases debt equivalent | €th | 0.00 | 0.00 | 0.00 |
| - Financial fixed assets (fair value) | €th | 10,000 | 10,000 | 15,000 |
| + Minority interests (fair value) | €th | 1,000 | 1,000 | 1,000 |
| = EV | €th | 75,795 | 41,802 | 4,056 |
| **EV/EBITDA(R)** | **x** | **-8.36** | **-4.05** | **0.56** |
| EV/Sales | x | 5.38 | 3.83 | 0.07 |