



Europlasma

Alternative Energy / France

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A most welcomed simplification

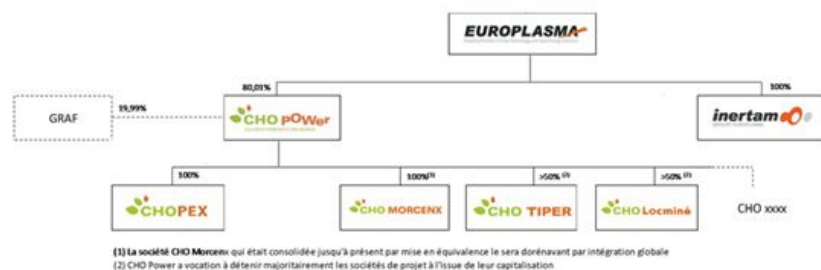
Strategic Plan - 27/03/2018

Europlasma simplifies its corporate set up. The group will now own its power generation units and can crystallise the “hidden” value of those assets in the simplification process.

Fact

Europlasma should complete by the end of March 2018 a number of steps that will lead it to the full control of the SPVs which are at the heart of its green power generation proposition.

Whereas the cash benefits of the recently-announced transaction are fairly straight forward (halving the debt amount of an operating subsidiary and related financial costs, full access to €6.8m held in an escrow account), the asset reorganisation is a complex one for the non cognoscenti. The final set up is as described in the following flowchart (company provided). In effect, the main shareholder (with 65%) of the first green power generation SPV (called CHO Morcenx) is recapitalising the SPV and then swapping its existing 65% stake in the said unit for a 20% stake in CHO Power. CHO Power thus 80% owned by Europlasma raises its stake in CHO Morcenx from 35% to 100%. In the process, Europlasma's Renewable Energy division called CHO Power is valued at €101m (80% owned by Europlasma), will use that valuation for future capital increases and collects the full profits of the green power generation assets (SPVs such as CHO Morcenx). Eventually, this means that Europlasma plans to fund and take a controlling stake in every future SPV associated with green power generation.



Analysis

The reorganisation is a positive surprise. One of the nagging issues with Europlasma moving away from being a pure plasma torch designer to a green power generator based on the use of plasma systems was and is the capital intensity of green power generation. A typical unit is a c. €55m capex effort, out of reach of Europlasma's much weakened balance sheet after many years of honing up on its technology. A typical unit would be 2/3rds debt-financed but the €15m equity leg would still be too much with Europlasma settling for a 35% equity stake.

In effect, Europlasma was addressing this attractive new market under four different hats: a component provider, an EPC provider, a risk taker as a minority shareholder in ad hoc power generation SPVs and a power generation manager through a fully-owned subsidiary (CHOPEX). The inconsistent bit, out of necessity, was to be a minority shareholder in the SPVs. This is addressed after the financial restructuring. It does change the business profile as it becomes all of a sudden

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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: 72.6%**

Target Price (6 months)	€ 0.37
Share Price	€ 0.21
Market Cap. €M	32.2
Price Momentum	GOOD
Extremes 12Months	0.16 ▶ 0.37
Bloomberg	ALEUP FP Equity
Reuters	ALEUP.PA

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PERF	1w	1m	3m	12m
Europlasma	28.8%	11.2%	11.6%	-39.4%
Utilities	-1.04%	0.24%	-4.08%	7.49%
STOXX 600	-2.81%	-4.72%	-6.94%	-3.54%

Last updated: 01/02/2018	12/15A	12/16A	12/17E	12/18E
Adjusted P/E (x)	-4.28	-2.81	-2.48	27.5
Dividend yield (%)	0.00	0.00	0.00	0.00
EV/EBITDA(R) (x)	-8.26	-5.40	-4.95	7.60
Adjusted EPS (€)	-0.24	-0.18	-0.11	0.01
Growth in EPS (%)	n/a	n/a	n/a	n/a
Dividend (€)	0.00	0.00	0.00	0.00
Sales (€th)	14,082	9,733	8,224	43,295
Operating margin (%)	-104	-173	-191	1.26
Attributable net profit (€th)	16,515	17,273	14,215	1,544
ROE (after tax) (%)	-171	3,126	423	70.1
Gearing (%)	28.3			78.6

[Company Valuation](#) - [Company Financials](#)

“consistent”. Being the full owners of green energy SPVs means that Europlasma will book the energy revenues and become a power generator as well as an engineer for plasma solutions.

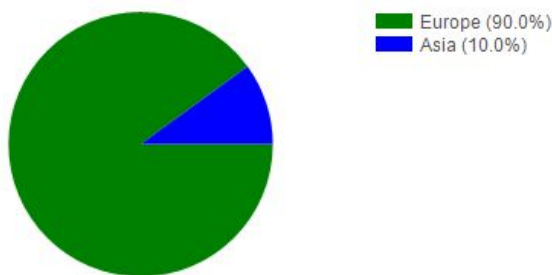
The complex business model that prevailed up to this reorganisation was that Europlasma would record revenues as an equipment provider, as an EPC supplier, as a power plant operator but only dividends from its minority stake in the power plant. This also meant that economic interests were not aligned between capital providers.

The solution whereby the owner of the first SPV (CHO Morcenx) swaps a controlling stake against a minority stake into a bigger, more ambitious company that will control CHO Morcenx and future SPVs is perfect. It has an immediate consequence which is to put a price on CHO Power at €101m on which Europlasma retains 80%. This is about 2.5x our previous valuation (but CHO Power was then with only a 35% stake in Morcenx). It also puts a price on Morcenx at c. €30m or possibly twice its initial equity value.

■ Impact

It will take a few extra days to review the modelling of Europlasma. Obviously Europlasma remains only as good as its ongoing projects and Europlasma's ability to deliver. But it is already clear that Europlasma ends up as a much clearer investment proposition, that the “sexy bit” (green power) is now controlling the full value chain and that this solves part of the financing issues as Europlasma will have a better control of cash flows. In short, the underlying cash flows are better captured and shared only as dividends with partners, not the other way round. Excellent news. We immediately allow for a higher valuation of CHO Power and an 80% holding of CHO Power.

Sales by Geography



Consolidated P&L Accounts

	12/16A	12/17E	12/18E
Sales	€th 9,733	8,224	43,295
Change in sales	% -30.9	-15.5	426
Change in staff costs	% 4.76	0.00	4.55
EBITDA	€th -11,708	-9,459	4,944
EBITDA(R) margin	% -120	-115	11.4
Depreciation	€th -4,230	-5,656	-4,400
Underlying operating profit	€th -15,938	-15,715	544
Operating profit (EBIT)	€th -16,712	-15,715	544
Net financial expense	€th -396	-2,000	-2,000
of which related to pensions	€th	0.00	0.00
Exceptional items & other	€th		
Corporate tax	€th -165	3,500	3,000
Equity associates	€th 0.00	0.00	0.00
Minority interests	€th 0.00	0.00	0.00
Adjusted attributable net profit	€th -16,621	-14,215	1,544
NOPAT	€th -11,157	-11,000	381

Cashflow Statement

	12/16A	12/17E	12/18E
EBITDA	€th -11,708	-9,459	4,944
Change in WCR	€th 3,536	-3,175	500
Actual div. received from equity holdi...	€th 0.00	0.00	0.00
Paid taxes	€th -335	3,500	3,000
Exceptional items	€th		
Other operating cash flows	€th 800	1,000	1,000
Total operating cash flows	€th -7,707	-8,134	9,444
Capital expenditure	€th -5,585	-3,500	-3,000
Total investment flows	€th -5,865	-4,500	-9,000
Net interest expense	€th -396	-2,000	-2,000
Dividends (parent company)	€th		
Dividends to minorities interests	€th 0.00	0.00	0.00
New shareholders' equity	€th 10,900	13,000	10,000
Total financial flows	€th 8,713	5,500	7,000
Change in cash position	€th -4,859	-7,134	7,444
Free cash flow (pre div.)	€th -13,688	-13,634	4,444

Per Share Data

	12/16A	12/17E	12/18E
No. of shares net of treas. stock (year...)	Th 111,650	152,405	202,405
Number of diluted shares (average)	Th 90,659	132,028	200,462
Benchmark EPS	€ -0.18	-0.11	0.01
Restated NAV per share	€		
Net dividend per share	€ 0.00	0.00	0.00

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 0.57	35%	Gea Group
NAV/SOTP per share	€ 0.38	20%	Suez
EV/Ebitda	€ 0.30	20%	Elecnor
P/E	€ 0.28	10%	ERG
Dividend Yield	€ 0.00	10%	
P/Book	€ 0.11	5%	
TARGET PRICE	€ 0.37	100%	

NAV/SOTP Calculation

Balance Sheet

	12/16A	12/17E	12/18E
Goodwill	€th 664	700	1,000
Total intangible	€th 911	1,014	1,314
Tangible fixed assets	€th 13,186	13,000	14,000
Financial fixed assets	€th 3,538	3,600	8,000
WCR	€th -675	2,500	2,000
Other assets	€th 3,415	4,000	4,000
Total assets (net of short term liab.)	€th 25,776	30,114	35,314
Ordinary shareholders' equity	€th -3,600	-3,120	7,525
Quasi Equity & Preferred	€th		
Minority interests	€th 100	100	100
Provisions for pensions	€th 500	0.00	0.00
Other provisions for risks and liabilities	€th 5,679	10,000	12,000
Total provisions for risks and liabilities	€th 6,179	10,000	12,000
Tax liabilities	€th -252	-2,000	-2,000
Other liabilities	€th 14,830	15,000	16,000
Net debt (cash)	€th 8,500	10,134	1,689
Total liab. and shareholders' equity	€th 25,757	30,114	35,314

Capital Employed

	12/16A	12/17E	12/18E
Capital employed after depreciation	€th 16,960	20,114	25,314

Profits & Risks Ratios

	12/16A	12/17E	12/18E
ROE (after tax)	% 3,126	423	70.1
ROCE	% -65.8	-54.7	1.51
Gearing (at book value)	% 78.6		
Adj. Net debt/EBITDA(R)	x -0.73	-1.07	0.34
Interest cover (x)	x -40.2	-7.86	0.27

Valuation Ratios

	12/16A	12/17E	12/18E
Reference P/E (benchmark)	x -2.81	-2.48	27.5
Free cash flow yield	% -23.8	-33.5	10.4
P/Book	x -16.0	-13.0	5.70
Dividend yield	% 0.00	0.00	0.00

EV Calculation

	12/16A	12/17E	12/18E
Market cap	€th 57,596	40,657	42,910
+ Provisions	€th 6,179	10,000	12,000
+ Unrecognised actuarial losses/(gains)	€th 0.00	0.00	0.00
+ Net debt at year end	€th 8,500	10,134	1,689
+ Leases debt equivalent	€th 0.00	0.00	0.00
- Financial fixed assets (fair value)	€th 10,000	15,000	20,000
+ Minority interests (fair value)	€th 1,000	1,000	1,000
= EV	€th 63,275	46,791	37,599
EV/EBITDA(R)	x -5.40	-4.95	7.60
EV/Sales	x 6.50	5.69	0.87