Ecoslops

Other Energies / France

Strong underlying operational delivery

Earnings/sales releases - 05/10/2018

Ecoslops' H1 18 release highlights a strong performance of its existing refining unit after upgrading, an inevitable rise in opex and c. 6 months push-back on the opening of the second unit in Marseille. We have trimmed down our earlier unrealistic 2018 expectations. This has a limited impact on our valuation.

Fact

Ecoslops' H1 earnings allow for the Q1 closure to upgrade its only current production site. The group posts a net loss of €-1.4m vs. €-0.6m. Its gross cash position is €7m with net cash at c.€4m.

P&L, k€	30/06/2018	30/06/2017	Var.
Revenues	2 612	2 939	(327)
Operating result	(1 350)	(680)	(670)
Financial result	(164)	(63)	(101)
Net result	(1 374)	(644)	(731)
Ebitda	(710)	(74)	(636)

Analysis

Ecoslops had made it clear that tweaking its Sines refinery so that it can process slops with lower flashpoints would mean losing a full quarter of 2018 operations. The benefit is that the processing unit can access a much wider range of slops including from land-based origins which are cheaper feedstock (more available supply) and thus magnify processing margins. As a reminder, Ecoslops has set up a form of profit sharing of good times with slops providers so that EBITDA margins may not go much above 50% against improved visibility from suppliers.

The positive news behind this investment (more an opportunity cost than a heavy capital spending) is that the Q2 operating performance has been very strong. Revenues (ex no margin utility-type revenues) reached €1.4m vs. €1.8m the year before. This remarkable performance is owed to strong pricing, up 64%, of which 24% is due to the mix and 32% due to the rise in the € price of Brent.

With an H1 18 EBITDA at €0.2m, the Sines plant even manages to more than breakeven as the above-quoted pricing conditions have been so favourable. The opportunity cost of updating the unit when demand was so strong may seem steep but this is obviously secondary with a view to the long-term benefits of being able to digest all sorts of slops and thereby changing the economics of the feedstocks by widening sources meaningfully.

The H1 EBITDA of the small group is a €-0.7m loss, however, as Ecoslops keeps flooring its opex/capex gas pedal. These include:

- the La Mède (near Marseilles) processing unit whose launch timetable has slipped to late H2 19 as the various building authorisations have been awarded quite late. This c. €15m capex should open with a 30,000t annual capacity;

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Buy	**Upside: 72.1%**
Target Price (6 months)	€ 25.0
Share Price	€ 14.5
Market Cap. €M	63.5
Price Momentum	**STRONG**
Extremes 12Months	11.1 ▶ 17.0
Bloomberg	ALESA FP Equity
Reuters	ALESA.PA

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PERF	1w	1m	3m	12m
Ecoslops	5.84%	7.01%	2.11%	-8.37%
Oils	0.48%	5.45%	5.41%	28.7%
STOXX 600	-1.73%	-0.04%	-0.10%	-2.75%

Last updated: 17/07/2018	12/16A	12/17A	12/18E	12/19E
Adjusted P/E (x)	-8.78	-37.2	ns	63.8
Dividend yield (%)	0.00	0.00	0.00	0.00
EV/EBITDA(R) (x)	-14.4	ns	43.2	23.4
Adjusted EPS (€)	-1.02	-0.34	0.03	0.23
Growth in EPS (%)	n/a	n/a	n/a	782
Dividend (€)	0.00	0.00	0.00	0.00
Sales (€th)	4,366	6,080	10,762	17,248
EBITDA/R margin (%)	-65.9	5.43	16.7	23.7
Attributable net profit (€th)	-3,420	-1,350	115	1,100
ROE (after tax) (%)	-26.1	-8.00	0.52	3.89
Gearing (%)	79.1	29.0	34.8	51.2

Company Valuation - Company Financials

- the Antwerp one is about twice the size at 60,000t/y and is still at the study phase;
- the development of the so-called mini-P2R. The mini-P2R can be summarised as a refinery in a box (a container in effect). A small unit at an estimated price of €3.5m would permit economically processing slops in smaller ports where a normal unit would not breakeven. The prototype is expected to be up and running by October this year (please see full report on Ecoslops for more on the mini-P2R).

Green credentials

Ecoslops' process helps decarbonise by recycling otherwise lost fossil fuels. The firm has found it difficult though to explain that one can deal with oil products and be green nevertheless. By calling itself "the cleantech that allows oil to enter the circular economy", Ecoslops is making a statement that happens to be factually correct. This should put it on the horizon of investors who are now more aware that assessing carbon externalities is not a black and white exercise.

In early October 2018, Ecoslops received a technology award for the design of its mini-P2R. This is based on a project but nevertheless confirms that the French ministry for environment is ready to back innovative projects even when they relate to fossil energies. In this respect, this is a major win for Ecoslops.

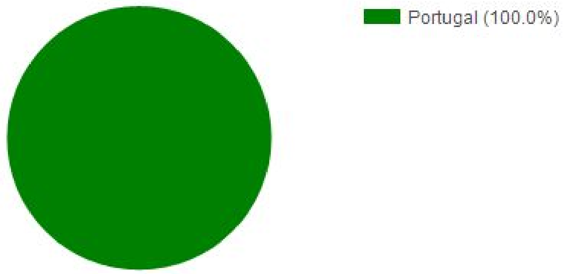
Impact

Ecoslops sees itself as churning c.19,000t of finished products in 2018 (vs. 22kt in 2017) with revenues up nevertheless on the previous year, courtesy of higher selling prices. In spite of this positive outcome, 2018 sales look set to land somewhat below our earlier (and admittedly too rosy) expectations. We have trimmed, accordingly, our top-line figure for 2018 with a less than proportional impact on the EBITDA of Sines as we were too pessimistic on margins. From 2019, higher crude prices would combine positively with access to cheaper slops per unit of refined product sold. Our net earnings are also trimmed down to allow for the headquarters' higher costs than we initially thought.

All in all instead of a marginal profit, we see a c.€1.8m loss in 2018. The next two years are also impacted negatively by c. €1m each compared to earlier expectations. This is partly owed to the push back of investments in La Mède and Antwerp by six months.

It is worth stressing that these earnings adjustments are marginal compared to the overall solid deployment of Ecoslops from a prototype to deal with intriguing idea (refine slops) to a working network of unique and sought-after waste processing capabilities.

Sales by Geography



Valuation Summary

Benchmarks	Value	Weight
DCF	€ 27.3	40%
NAV/SOTP per share	€ 31.9	40%
P/E	€ 7.25	5%
EV/Ebitda	€ 2.25	5%
P/Book	€ 15.3	5%
Dividend Yield	€ 0.45	5%
TARGET PRICE	€ 25.0	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	10,762	17,248
Change in sales	%	39.3	77.0	60.3
Change in staff costs	%	-27.9	6.12	53.8
EBITDA	€th	-331	1,802	4,080
EBITDA(R) margin	**%**	**-5.44**	**16.7**	**23.7**
Depreciation	€th	-1,120	-1,454	-1,954
Underlying operating profit	€th	-1,621	348	2,126
Operating profit (EBIT)	**€th**	**-1,621**	**348**	**2,126**
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	432	396
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**	**115**	**1,100**
NOPAT	€th	-1,135	244	1,488

Cashflow Statement

		12/17A	12/18E	12/19E
EBITDA	€th	-331	1,802	4,080
Change in WCR	€th	-426	-1,422	-1,061
Actual div. received from equity holdi...	€th	0.00	0.00	0.00
Paid taxes	€th	0.00	432	396
Exceptional items	€th	0.00	0.00	0.00
Other operating cash flows	€th	267	1,181	0.00
Total operating cash flows	€th	-490	1,993	3,416
Capital expenditure	€th	-471	-14,200	-18,900
Total investment flows	€th	-471	-14,200	-18,900
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	10,485
Total financial flows	€th	4,912	15,710	25,086
Change in cash position	€th	3,951	3,503	9,601
Free cash flow (pre div.)	**€th**	**-1,079**	**-12,872**	**-16,906**

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**	**0.03**	**0.23**
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	29,406	46,353
Financial fixed assets	€th	19.1	19.1	19.1
WCR	€th	590	2,012	3,073
Other assets	€th	3,504	3,386	3,386
Total assets (net of short term liab.)	€th	23,726	37,466	55,473
Ordinary shareholders' equity	**€th**	**21,422**	**22,515**	**34,100**
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**	**14,247**	**20,668**
Total liab. and shareholders' equity	€th	23,728	37,466	55,473

Capital Employed

		12/17A	12/18E	12/19E
Capital employed after depreciation	€th	18,095	31,929	49,936

Profits & Risks Ratios

		12/17A	12/18E	12/19E
ROE (after tax)	**%**	**-8.00**	**0.52**	**3.89**
ROCE	%	-6.27	0.76	2.98
Gearing (at book value)	**%**	**29.0**	**34.8**	**51.2**
Adj. Net debt/EBITDA(R)	x	-4.29	7.91	5.07
Interest cover (x)	x	-13.7	0.52	1.50

Valuation Ratios

		12/17A	12/18E	12/19E
Reference P/E (benchmark)	**x**	**-37.2**	**ns**	**63.8**
Free cash flow yield	%	-1.94	-20.3	-22.6
P/Book	x	2.60	2.82	2.19
Dividend yield	**%**	**0.00**	**0.00**	**0.00**

EV Calculation

		12/17A	12/18E	12/19E
Market cap	€th	55,735	63,533	74,799
+ 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	14,247	20,668
+ 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	77,780	95,467
EV/EBITDA(R)	**x**	**ns**	**43.2**	**23.4**
EV/Sales	x	9.43	7.23	5.54

Analyst : Pierre-Yves Gauthier, Changes to Forecasts : 17/07/2018.