# Europlasma

Alternative Power Sources / France

capitalgoods@alphavalue.eu
+33 (0) 1 70 61 10 50
corporate.alphavalue.com

## Cash drain continues by H1, ends by 2017 ?

Earnings/sales releases - 01/11/2016

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 : 117%** |
|---|---|
| Target Price (6 months) | € 0.56 |
| Share Price | € 0.26 |
| Market Capitalisation €M | 18.1 |
| Price Momentum | NEGATIVE |
| Extremes 12Months | 0.25 ▶ 1.07 |
| Newsflow | Neutral |
| Bloomberg | ALEUP FP Equity |
| Reuters | ALEUP.PA |

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| PERF | 1w | 1m | 3m | 12m |
|---|---|---|---|---|
| Europlasma | -3.70% | -18.8% | -42.2% | -71.4% |
| Capital Goods | -3.68% | -6.28% | -1.62% | 3.02% |
| STOXX 600 | -3.52% | -4.47% | -2.68% | -13.5% |

| Last updated: 05/11/2016 | 12/14A | 12/15A | 12/16E | 12/17E |
|---|---|---|---|---|
| Adjusted P/E (x) | -2.92 | -4.33 | -2.09 | 13.2 |
| Dividend yield (%) | 0.00 | 0.00 | 0.00 | 0.00 |
| EV/EBITDA(R) (x) | -9.72 | -8.36 | -1.37 | -0.71 |
| 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

### Fact

Europlasma released a set of figures for H1 16 that can only be acceptable because management confirmed that the cash drain will subside soon.

Sales are down €1.2m to €5.7m, EBITDA is flat at a negative €5m and the net loss is about €-9m (a €+0.7m improvement) so that shareholders' funds stand now in the red at €-5.2m while net debt tops €10.8m from €5.7m. The primary cash consumer, Europlasma's power generation unit, is actually making serious progress towards being declared "good to go" for the end of this year. This will *de facto* be applicable to the pipe line of power projects which will change Europlasma's profile for the best.

In spite of its cash consumption, the tiny group is liquid thanks to access to a convertible line that will nevertheless bite into common shareholders' share of the firm if the cash drain is not stemmed by 2017.

### Analysis

The H1 16 set of figures is poor as it combines the negatives of not yet having a fully functional power generation unit and operational problems at the only cash generator, i.e. the asbestos processing unit Inertam. Long discussed engineering contracts for plasma torches have remained in the discussion phase, i.e. will at best materialise in 2017.

H2 will suffer essentially from the same issues with the Inertam unit falling further into the red (EBIT basis) as it has had to stop for over two months on safety concerns for its staff. At the margin, the power generating unit sells some power that is recorded as direct revenues as it is now working well. The final steps are due before the end of the 2016 when the unit yield will make a quantum jump as the current gas turbine is complemented by two high performance gas engines from GE.

This is when Europlasma will at last be in a position to get the final acceptance from the operating client (CHO Morcenx). Europlasma will then stop investing in the plant in relation to the construction contract, will collect operational revenues and, later on, dividends. The cash drain on this long delayed waste-to-gas-to-power unit will then stop and the pipeline that the company has been building and permitting for years will start to materialise. It currently has 4-5 projects in late stage and a similar amount in earlier development. In particular, the two fully developed projects (Tiper and Locminé) are to be started next year which should catapult the CHOP platform forward, making it a powerful waste-to-energy player. With the technical work behind, the priority will move on to grow and scale the platform rapidly.

Although the H1 16 earnings are a real pain cash-wise, they hide the good progress on the engineering side which means that it is no longer a case of throwing good money after bad. The current funding is on very expensive terms (see full report) that would be reorganised once the final acceptance shows that the Europlasma green power technology is a hard fact.

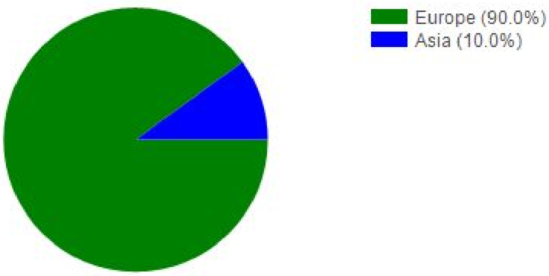
## Impact

The continuing cash drain as well as the postponement of cash generation by Inertam means that our 2016 forecasts, which were at best a stab at the unknown, need to be pushed further into the red. We have about doubled the expected loss for 2016 compared to our previous estimate. The 2017 guess has also been trimmed down to allow for the fact that the better operating conditions expected from Inertam will only materialise from 2018 when stronger pricing filters through to production.

The net debt position at €10.8m by H1 is at odds with our own net cash position at €11m computed for FY2016. This is because we assume that the company will make use of all the financial instruments at hand. We have assumed a maximal dilution in this respect so that the costs are borne this way more than through an interest charge. We have, however, allowed for the fact that the interest bill is shooting up this year.

It is also important to remind the reader that the 2017 and 2018 accounts are built by AlphaValue as if Europlasma were to be a minority partner in power operating units. In this instance, Europlasma would record very significant EPC sales and profits. However, Europlasma's management is working on alternative funding scenarios whereby Europlasma would be the majority owner so that Europlasma would become a *de facto* green utility. Our projections would have to be fully reconstructed toward a more capital intensive business. From a market sentiment standpoint, the benefits would obviously be lesser corporate complexity and stronger valuation multiples.

## Sales by Geography




## Valuation Summary

| Benchmarks | Value | Weight |
|---|---|---|
| DCF | € 0.85 | 35% |
| NAV/SOTP per share | € 0.62 | 20% |
| EV/Ebitda | € 0.51 | 20% |
| P/E | € 0.13 | 10% |
| Dividend Yield | € 0.00 | 10% |
| P/Book | € 0.52 | 5% |
| TARGET PRICE | € 0.56 | 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** | **-2.09** | **13.2** |
| Free cash flow yield | % | -20.3 | -30.4 | 13.9 |
| P/Book | x | 28.8 | 1.27 | 0.72 |
| **Dividend yield** | **%** | **0.00** | **0.00** | **0.00** |

## EV Calculation

| | | 12/15A | 12/16E | 12/17E |
|---|---|---|---|---|
| Market cap | €th | 71,886 | 25,649 | 34,099 |
| + 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 | 14,163 | -5,124 |
| **EV/EBITDA(R)** | **x** | **-8.36** | **-1.37** | **-0.71** |
| EV/Sales | x | 5.38 | 1.30 | -0.09 |