



Europlasma

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Further pain by H1 17 but green energy progress

Earnings/sales releases - 15/11/2017

Fact

Europlasma posted a €-11m loss over H1 17. This was €2m worse than in H1 16. The top line and EBITDA were both sharply down (see table please)

in €k	30/06/2017	30/06/2016	Change
Revenues	3 624	5 709	-2 085
EBITDA	-6 618	-4 979	-1 639
Net earnings	-11 125	-9 024	-2 101

Analysis

Europlasma's rather disappointing financial showing over H1 is at odds with the fact that the firm has delivered on its most risky venture, green power generation. This amounts to a degree of bad luck.

Essentially Europlasma can be regarded as: a) a strenuous effort to become a green power generator through leading edge waste to power technology, and b) the management of a cash-cow which is the processing of asbestos-based waste products.

The good news of earlier this year was that the green generation power was up and working after three years of ironing out technical glitches. The so-called final acceptance last June came, however, with a caveat that further performance optimisation work was required as requested by the plant's owner and supported by Europlasma which sees a direct benefit as a 35% stake holder. This means the provisioning of €3.45m extra costs which are funded by payments of the plant's owner for a total of €4.78m. This matters as Europlasma has been battling with significant cash consumption and costly equity financing (see next section).

The additional regrettable news of the H1 earnings is that the cash-cow side, asbestos treatment (operated under the name of Inertam), has misfired. The unique oven of Inertam was due for an overhaul in Q1 but the restart has proved difficult in Q2 and made even more painful by stricter regulations about dust emission controls that led to production stops while new air cleaning systems were being added. The turnover for Inertam has collapsed from €4.9m to €3m with a corresponding cash squeeze as this business is all about saturating capacity to be profitable.

Cash flow drain continues

The operating cash flow is a drain of €-6.6m, of which €-4m comes from power generation and €-0.4m from Inertam, the balance is due to central costs and the engineering business called "Plasma Solutions"

The price to pay has been the phenomenal dilution as Europlasma has been relying on financing in the form of convertibles whose conversion and subsequent selling of resulting equity into the market has depressed the share price massively.

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: 206%

Target Price (6 months)	€ 0.67
Share Price	€ 0.22
Market Cap. €M	24.6
Price Momentum	UNFAVORABLE
Extremes 12Months	0.20 ▶ 0.44
Bloomberg	ALEUP FP Equity
Reuters	ALEUP.PA

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PERF	1w	1m	3m	12m
Europlasma	10.0%	0.00%	-8.33%	-15.4%
Utilities	-3.74%	-1.46%	2.98%	26.6%
STOXX 600	-2.73%	-1.93%	2.05%	13.5%

Last updated: 12/01/2017	12/14A	12/15A	12/16E	12/17E
Adjusted P/E (x)	-2.92	-4.33	-4.33	11.2
Dividend yield (%)	0.00	0.00	0.00	0.00
EV/EBITDA(R) (x)	-9.72	-8.36	-4.05	-1.43
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)	-	-	-	3,078
ROE (after tax) (%)	-270	-171	-113	9.07
Gearing (%)	34.1	28.3	-11.8	-48.0

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

Such financing to the tune of €7m has been covering the operating cash needs but not the capital expenditure (€1.9m). Another €2m raised over July 2017 in the shape of a convertible helped balance the cash needs but the H1 balance sheet shows negative equity of €-7m and a net debt of c.€10.5m.

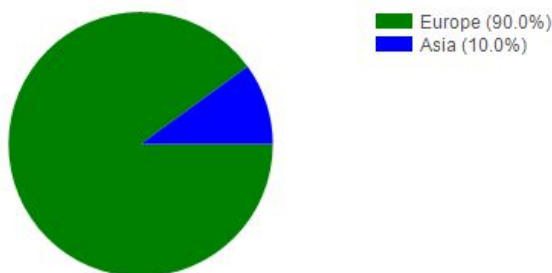
Outlook

We keep on repeating that the worse is behind from the point of view of technical risks. This is the case. Even though further optimisation work is required on the green power unit, the deployment of this solution on two new sites is going as planned with a good chunk of the financing secured for the first one (dubbed Tiper). The second one should not be a problem. On the Inertam front, it appears to be running smoothly again in H2.

■ Impact

We need to trim seriously our optimistic expectations to allow for: 1) the Inertam hiccup, 2) the lasting cash drain, and 3) the fact that the EPC side of the business which is the only driver of the turnover is delayed to 2018. 2017 pans out as another year “without” from an earnings standpoint. The issue of which is the right business model has not been sorted as well. This is about the extent of the ownership by Europlasma of the generation plants. Controlling such cash flows is attractive but it starts with a proper financing of such an ownership. Our modelling does not allow for that and remains fragile.

Sales by Geography



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

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 1.06	35%	Gea Group
NAV/SOTP per share	€ 0.62	20%	Suez
EV/Ebitda	n/a	20%	Elecnor
P/E	€ 0.11	10%	ERG
Dividend Yield	€ 0.00	10%	
P/Book	n/a	5%	
TARGET PRICE	€ 0.67	100%	

NAV/SOTP Calculation

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	11.2
Free cash flow yield	% -20.3	-14.6	16.4
P/Book	x 28.8	2.64	0.61
Dividend yield	% 0.00	0.00	0.00

EV Calculation

	12/15A	12/16E	12/17E
Market cap	€th 71,886	53,288	28,853
+ Provisions	€th 7,200	8,000	10,000
+ Unrecognised actuarial 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	-10,370
EV/EBITDA(R)	x -8.36	-4.05	-1.43
EV/Sales	x 5.38	3.83	-0.18