Ecoslops

Other Energies / France

Avoided carbon gains speed

Financing issue - 18/02/2019

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

Buy	**Upside: 89.5%**
Target Price (6 months)	€ 24.2
Share Price	€ 12.8
Market Cap. €M	65.8
Price Momentum	**GOOD**
Extremes 12Months	9.90 ▶ 16.5
Bloomberg	ALESA FP Equity
Reuters	ALESA.PA

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PERF	1w	1m	3m	12m
Ecoslops	-0.39%	15.4%	8.05%	1.59%
Oils	2.60%	6.10%	2.41%	16.6%
STOXX 600	3.04%	5.23%	2.93%	-2.01%

Last updated: 05/10/2018	12/17A	12/18E	12/19E	12/20E
Adjusted P/E (x)	-37.2	-33.8	ns	24.7
Dividend yield (%)	0.00	0.00	0.00	1.57
EV/EBITDA(R) (x)	ns	ns	29.6	15.2
Adjusted EPS (€)	-0.34	-0.39	0.04	0.52
Growth in EPS (%)	n/a	n/a	n/a	1,127
Dividend (€)	0.00	0.00	0.00	0.20
Sales (€th)	6,080	7,800	15,921	26,191
EBITDA/R margin (%)	5.43	-6.88	17.9	27.8
Attributable net profit (€th)	-1,350	-1,750	204	2,717
ROE (after tax) (%)	-8.00	-9.72	1.22	15.4
Gearing (%)	29.0	41.3	77.3	147

Company Valuation - Company Financials

Ecoslops' success in processing oil wastes for a profit is gaining momentum with a full financing of its second unit due in early 2020.

Fact

Ecoslops posted a raft of positive communiqués somewhat ahead of its FY 2018 release. These include:
- Solid trading in 2018 with sales of the Portuguese unit up 30% (excluding sales at no profit as part of a utility contract)
- Ample financing (up to €18m) from EIB to build the second refining unit in Marseilles
- Essentially no net debt at the close of 2018
- The final go from regulatory authorities to launch the Marseilles site
- Not to have to repay cheap financing provided by European development funds (€3m in all) beefing up Ecoslops' balance sheet
- Delivery of a "mini" prototype unit, dubbed Mini P2R, currently tested as a refinery-in-a-box product

Analysis

The indicated 2018 turnover (from the first and unique plant so far in Sines, Portugal) is an ounce lower than our modelling at €7.3m, where we were guessing €7.8m. As a reminder, this is less a measure of a volume weakness (at 19,000t it was in line with company forecasts) than a reflection of realisation prices, themselves as volatile as crude oil prices. As input prices (slops) are also substantially geared to crude prices, the lower turnover does not mechanically mean lower profits. Prior to the company's FY earnings release, we chose to leave the Sines contribution unchanged at c. €1.3m. The unknown is really how much central costs will allow for the development costs of the small "mini" refining unit.

2019 will see no contribution from the Marseille new plant as its construction, now fully financed, will be completed by late 2019. So that the ramping up/de-bottlenecking of the Marseille unit will happen over H1 and, hopefully, a near capacity production by H2.

Financed!

Although management was confident of getting a funding in place for Marseilles, it is an impressive feat to collect €18m from the EIB (with funds aimed at specific capex), €6.5m from banks and a massive discount on earlier financing for the Portuguese unit thereby saving €3m to the benefit of shareholders. Such a robust financing is due to the operational success of the first unit which must have convinced lenders that they will see their money back thanks to plain cash flows.

Assuming Marseille does not have teething problems, it looks as if Ecoslops may avoid passing the hat to its shareholders. We had allowed for a near €10m capital increase this year. Cancelling it would increase EPS by c. 17%. We keep the cash injection in our model for the time being and wait for full-year figures to rehearse the new funding scenario. We would also have to reconcile the fact that FY2018 closes with no net debt when we had computed €10m.

Avoided carbon

Ecoslops is a great practical idea, reprocessing slops by means of an ad hoc, company-designed refining unit, which has “green” implications that are becoming increasingly evident to investors.
The default posture of surface observers is that Ecoslops deals in oil products and thus cannot be touched with a barge pole. This is silly. Such simplistic views now make place for a more positive and practical conclusion that Ecoslops is about avoided carbon thanks to its efficient reprocessing. Its business amounts to drawing less on natural resources and cutting on externalities costs.

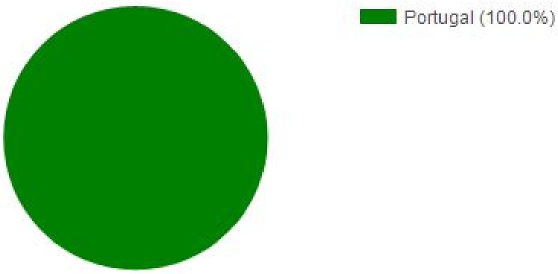
Ecoslops has “greentech” credentials that come with a profitable model and significant growth potential. This is rather infrequent for recently-created companies. As a reminder, there is no shortage of slops hiding in every corner of the industry. Even better, Ecoslops operates at a profit in a competitive world so that it is unlikely to fall prey to changing subsidies and regulations. Obviously, it does go by the regulations of the oil industry without which it could not sell some of its output to industry leaders (Galp and Total).

The next twist to the “green” story is the ongoing tests for the Mini P2R, i.e. the refinery-in-a-box that can be delivered in a 20-foot container to any location where there are slops in quantities too small to justify a full unit. This means addressing the markets in smaller harbours or islands where the Mini P2R will be in a position to churn low quality diesel fuel so it is good enough to generate local power at a tiny capital cost and zero input prices, or next to so. All business models are envisaged from outright selling of the units to operating them for power provision.

Impact

We understand and can compute that a best case scenario has emerged whereby EIB financing and FCF from the first production unit would be enough to pursue the planned capex programme, i.e. Marseille and Antwerp, without asking shareholders to stump up. That is obviously dependent on the proper execution of the Marseille construction but is effectively good news. On top, one may not exclude the green credentials to justify a degree of P/E expansion.

Sales by Geography



Valuation Summary

Benchmarks	Value	Weight
DCF	€ 25.6	40%
NAV/SOTP per share	€ 32.6	40%
P/E	€ 6.38	5%
EV/Ebitda	€ 1.19	5%
P/Book	€ 8.41	5%
Dividend Yield	€ 1.90	5%
TARGET PRICE	€ 24.2	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	7,800	15,921
Change in sales	%	39.3	28.3	104
Change in staff costs	%	-27.9	6.12	53.8
EBITDA	€th	-331	-537	2,845
EBITDA(R) margin	**%**	**-5.44**	**-6.88**	**17.9**
Depreciation	€th	-1,120	-1,300	-2,000
Underlying operating profit	€th	-1,621	-1,837	845
Operating profit (EBIT)	**€th**	**-1,621**	**-1,837**	**845**
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	752	781
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**	**-1,750**	**204**
NOPAT	€th	-1,135	-1,286	592

Cashflow Statement

EBITDA	€th	-331	-537	2,845
Change in WCR	€th	-426	-1,081	-1,208
Actual div. received from equity holdi...	€th	0.00	0.00	0.00
Paid taxes	€th	0.00	752	781
Exceptional items	€th	0.00	0.00	0.00
Other operating cash flows	€th	267	-4,899	-5,676
Total operating cash flows	€th	-490	-5,765	-3,258
Capital expenditure	€th	-471	-2,800	-12,900
Total investment flows	€th	-471	-2,800	-12,900
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	9,705
Total financial flows	€th	4,912	15,710	24,306
Change in cash position	€th	3,951	7,145	8,147
Free cash flow (pre div.)	**€th**	**-1,079**	**-9,230**	**-17,580**

Per Share Data

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**	**-0.39**	**0.04**
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	18,160	29,060
Financial fixed assets	€th	19.1	19.1	19.1
WCR	€th	590	1,672	2,880
Other assets	€th	3,504	3,386	3,386
Total assets (net of short term liab.)	€th	23,726	25,880	37,988
Ordinary shareholders' equity	**€th**	**21,422**	**14,570**	**18,803**
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**	**10,605**	**18,480**
Total liab. and shareholders' equity	€th	23,728	25,880	37,988

Capital Employed

Capital employed after depreciation	€th	18,095	20,343	32,451

Profits & Risks Ratios

ROE (after tax)	**%**	**-8.00**	**-9.72**	**1.22**
ROCE	%	-6.27	-6.32	1.82
Gearing (at book value)	**%**	**29.0**	**41.3**	**77.3**
Adj. Net debt/EBITDA(R)	x	-4.29	-19.8	6.50
Interest cover (x)	x	-13.7	-2.76	0.59

Valuation Ratios

Reference P/E (benchmark)	**x**	**-37.2**	**-33.8**	**ns**
Free cash flow yield	%	-1.94	-15.9	-26.7
P/Book	x	2.60	4.00	3.50
Dividend yield	**%**	**0.00**	**0.00**	**0.00**

EV Calculation

Market cap	€th	55,735	58,220	65,772
+ 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	10,605	18,480
+ 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	68,825	84,252
EV/EBITDA(R)	**x**	**ns**	**ns**	**29.6**
EV/Sales	x	9.43	8.82	5.29

Analyst : Pierre-Yves Gauthier, Changes to Forecasts : 05/10/2018.