



Europlasma

Alternative Energy / France

Power generation fine-tuning at a further cost in 2018

Earnings/sales releases - 21/11/2018

The H1 earnings released on 31/10 showed some improvement, but were substantially below what our modelling implied with a €-5.2m cash loss when we were banking on a €-1.4m loss for the full year. While we downgrade our near-term expectations, funding issues have been pushed to the fore as the recap planned before year-end has not yet materialised. The reliance on convertible issuance for short-term funding has been stopped on 12/11 as its dilutive impact is amplified when the share price drops. Management is focused on sorting the need for fresh funding for the deployment of Renewable Energy waste to power generation and the execution of a broad industrial agreement with Orano.

Fact

The H1 net earnings at €-10.5m were dominated by a €-7.1m loss from renewable energy (including €-3.6m accounting non-cash loss) which is at the heart of the redesigned Europlasma. Our last April forecast of a €-1.4m loss for 2018 is out of kilter. H1 has burnt c. €8m, offset by about €7m in equity issuance. The group is facing a €28m net debt, of which c. €13m is due to the highly welcomed change in consolidation perimeter earlier this year whereby CHO Morcenx is now fully consolidated in the Renewable Energy activity. Group share of equity stands at €-10m with minorities contributing €14.3m, so that equity is a modest €4m or so.

Analysis

The H1 operating earnings were disappointing as far as power generation goes. Once the change of scope of consolidation is allowed for (a negative €-2.1m impact), one is still left with a €-4.5m loss. This is at some distance from our computation for the year which was banking on a €4.3m...profit. The gap is due to upgrades at CHO Morcenx which are still requiring long plant stoppages. H2 power generation will also suffer from extra testing periods after a set of technological improvements with a reopening last September. We have slashed our revenue expectations from €10m down to €4m and our EBIT expectation from €4.3m to €-3.7m. Further down the line the growth expected from the opening of a second power generation site (CHO Tiper) has been pushed back some months as the funding has to be fully raised. The first MWh are now a 2020 prospect.

The other main line of business is asbestos waste treatment (Inertam). Here again H1 revenues (€4.4m) are below our expectations so that we slightly cut down our full-year forecasts by €1m to €9m. The segment still sees a halving of its operating loss to €-1.5m vs. last year. We trim our full-year EBIT expectations for Inertam from €0.7m to c.€0.2m. This may be optimistic as the kiln has been shut down for more than a month for a partial relining in H2. Long-standing plans to have another ready kiln are ready but have been delayed by funding constraints.

Central costs which allow for R&D efforts clearly remain (necessarily) high at c. €2.5m

Funding delayed

Good progress on power generation both on technology and the legal set-up which handed over control to Europlasma as opposed to financing partners were conducive of positive expectations for a fresh round of funding. Fresh funding was



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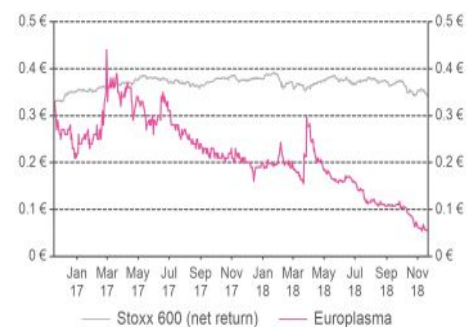
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AlphaValue is contracted by Europlasma to provide equity research on Europlasma, using AlphaValue's unique and transparent methods and procedures. Target price and opinion are thus exclusively determined by those methods and procedures.

Buy Upside: 271%

Target Price (6 months)	€ 0.21
Share Price	€ 0.06
Market Cap. €M	14.2
Price Momentum	NEGATIVE
Extremes 12Months	0.05 ▶ 0.30
Bloomberg	ALEUP FP Equity
Reuters	ALEUP.PA


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PERF	1w	1m	3m	12m
Europlasma	-6.67%	-35.1%	-52.1%	-72.0%
Utilities	-1.12%	1.51%	0.62%	6.34%
STOXX 600	-3.67%	-2.82%	-8.39%	-9.14%

Last updated: 21/11/2018	12/16A	12/17A	12/18E	12/19E
Adjusted P/E (x)	-2.81	-1.66	-1.13	-5.17
Dividend yield (%)	0.00	0.00	0.00	0.00
EV/EBITDA(R) (x)	-5.40	-6.09	-22.6	22.8
Adjusted EPS (€)	-0.18	-0.16	-0.05	-0.01
Growth in EPS (%)	n/a	n/a	n/a	n/a
Dividend (€)	0.00	0.00	0.00	0.00
Sales (€th)	9,733	13,133	14,000	24,560
Operating margin (%)	-173	-107	-61.6	3.19
Attributable net profit (€th)	17,273	21,820	11,079	-3,742
ROE (after tax) (%)	3,126	232	91.8	68.1
Gearing (%)				

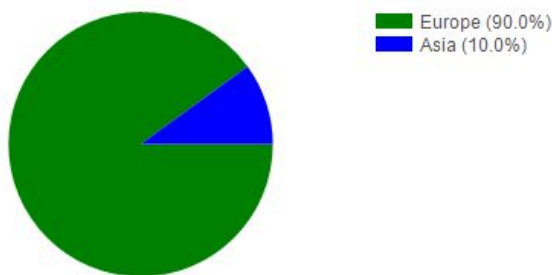
[Company Valuation](#) - [Company Financials](#)

primarily aimed at coping with the group share of funding into new power plants. Earlier expectations of a completion by early November have been dashed (reason unknown) so that Europlasma had relaunched its expensive issuance of convertibles, subsequently converted into equity and sold in the market. The fast-forward drop in the share price led to an interruption of this funding. This difficult patch is self-feeding, obviously, as some major projects (agreement with Orano on the treatment of toxic & radioactive waste, launch of CHO Tiper) are pushed back. We allow for some of this in our new forecasts.

■ Impact

The combination of lower than expected H1 cash generation, the delays in funding and consequent push back of expansion plants, as well as the cost of short-term risky funding, all conspire to a very material drop in expectations in 2018 and potentially 2019 group earnings. This is further compounded by an even higher than expected dilution cost. We raised our expected number of shares by about 40% to allow for the current very low share prices which reflects more liquidity concerns than a loss of substance. Please see the relevant tables in our full report with a rough estimate of a target price brought down to €0.22 from €0.34 before the release.

Sales by Geography



Consolidated P&L Accounts

		12/17A	12/18E	12/19E
Sales	€th	13,133	14,000	24,560
Change in sales	%	34.9	6.60	75.4
Change in staff costs	%	0.00	4.55	21.7
EBITDA	€th	-8,057	-3,700	6,832
EBITDA(R) margin	%	-61.3	-26.4	27.8
Depreciation	€th	-2,818	-4,925	-6,050
Underlying operating profit	€th	-13,799	-8,625	782
Operating profit (EBIT)	€th	-14,096	-8,625	782
Net financial expense	€th	-854	-2,500	-4,000
of which related to pensions	€th		0.00	0.00
Exceptional items & other	€th			
Corporate tax	€th	30.0	0.00	0.00
Equity associates	€th	-6,900	0.00	0.00
Minority interests	€th	0.00	45.6	-524
Adjusted attributable net profit	€th	-21,164	-11,079	-3,742
NOPAT	€th	-16,559	-6,038	548

Cashflow Statement

EBITDA	€th	-8,057	-3,700	6,832
Change in WCR	€th	1,667	-848	-1,500
Actual div. received from equity holdi...	€th	0.00	0.00	0.00
Paid taxes	€th	421	0.00	0.00
Exceptional items	€th			
Other operating cash flows	€th	-2,200	1,000	1,000
Total operating cash flows	€th	-8,169	-3,548	6,332
Capital expenditure	€th	-3,100	-7,500	-63,000
Total investment flows	€th	-3,800	-8,500	-64,000
Net interest expense	€th	-854	-2,500	-4,000
Dividends (parent company)	€th			
Dividends to minorities interests	€th	0.00	0.00	0.00
New shareholders' equity	€th	14,200	6,000	6,000
Total financial flows	€th	12,300	700	40,000
Change in cash position	€th	331	-11,348	-17,668
Free cash flow (pre div.)	€th	-12,123	-13,548	-60,668

Per Share Data

No. of shares net of treas. stock (year...	Th	152,405	294,000	354,000
Number of diluted shares (average)	Th	132,028	224,472	345,538
Benchmark EPS	€	-0.16	-0.05	-0.01
Restated NAV per share	€			
Net dividend per share	€	0.00	0.00	0.00

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 0.45	35%	■ Acciona
NAV/SOTP per share	€ 0.23	20%	■ Drax Group
EV/Ebitda	€ 0.00	20%	■ Ebioss Energy
P/E	€ 0.03	10%	■ Gea Group
Dividend Yield	€ 0.00	10%	■ Elecnor
P/Book	€ 0.03	5%	■ ERG
TARGET PRICE	€ 0.21	100%	

NAV/SOTP Calculation

Balance Sheet

		12/17A	12/18E	12/19E
Goodwill	€th	8.00	1,000	1,000
Total intangible	€th	201	1,314	1,314
Tangible fixed assets	€th	13,341	51,000	111,000
Financial fixed assets	€th	0.00	8,000	10,000
WCR	€th	1,152	2,000	3,500
Other assets	€th	10,842	4,000	5,000
Total assets (net of short term liab.)	€th	28,299	72,314	136,814
Ordinary shareholders' equity	€th	-15,224	-8,909	-2,077
Quasi Equity & Preferred	€th			
Minority interests	€th	31.0	20,000	30,000
Provisions for pensions	€th	573	0.00	0.00
Other provisions for risks and liabilities	€th	8,169	12,000	15,000
Total provisions for risks and liabilities	€th	8,742	12,000	15,000
Tax liabilities	€th	115	-2,000	-2,000
Other liabilities	€th	20,972	16,000	15,000
Net debt (cash)	€th	13,675	35,223	80,891
Total liab. and shareholders' equity	€th	28,311	72,314	136,814

Capital Employed

Capital employed after depreciation	€th	14,694	62,314	125,814
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Profits & Risks Ratios

ROE (after tax)	%	232	91.8	68.1
ROCE	%	-113	-9.69	0.44
Gearing (at book value)	%			
Adj. Net debt/EBITDA(R)	x	-1.70	-9.52	11.8
Interest cover (x)	x	-16.2	-3.45	0.20

Valuation Ratios

Reference P/E (benchmark)	x	-1.66	-1.13	-5.17
Free cash flow yield	%	-29.8	-82.3	-306
P/Book	x	-2.67	-1.85	-9.55
Dividend yield	%	0.00	0.00	0.00

EV Calculation

Market cap	€th	40,657	16,464	19,824
+ Provisions	€th	8,742	12,000	15,000
+ Unrecognised actuarial losses/(gains)	€th	0.00	0.00	0.00
+ Net debt at year end	€th	13,675	35,223	80,891
+ Leases debt equivalent	€th	0.00	0.00	0.00
- Financial fixed assets (fair value)	€th	15,000	0.00	0.00
+ Minority interests (fair value)	€th	1,000	20,000	40,000
= EV	€th	49,074	83,687	155,715
EV/EBITDA(R)	x	-6.09	-22.6	22.8
EV/Sales	x	3.74	5.98	6.34

Analyst : Pierre-Yves Gauthier, Changes to Forecasts : 21/11/2018.