



# Drone Volt

Aersp. & Defence Equipt. / France

## Contracts signed in H1, cash expected in H2

Strategic Plan - 24/09/2021

**H1 was a half year full of exciting news for Drone Volt. Its partnership with Aquiline Drones strengthened significantly through a disposal and huge orders. With Aquiline Drones' ambitious sales objectives, Drone Volt will move into another dimension by H2. The strong results in H1 have proven that Drone Volt's recovery is already complete, and now is the time for growth.**

### Fact

#### H1 results

The H1 results were strong. Sales improved by 84% yoy and gross margins improved by 10 points to 39% driven by the solid growth of its strong value-added segment Drone Volt Factory, Services & Academy. We believe Drone Volt has taken advantage of this impressive gross profit to include conservative provisions that will only lead to tailwinds in the future. Indeed, the amortisation and provisions have increased by €1m yoy in H1, as Drone Volt has changed its amortisation of the R&D policy from a straight line 5 years method to 3 years to represent the fast pace of obsolescence of the technology. In addition, its Hercules 2 drone has gone through significant technology changes in H1 to enable it to weigh less than 2kg. Hence, some of its inventories with older generation Hercules 2 drones will probably not find buyers as easily. Drone Volt has recognised a conservative provision amount to represent this risk, even though suppliers are happily willing to retrieve the electronic components of those drones at a good price as they are scarce in the current market. Therefore, we believe that EBIT is artificially low and does not represent the positive evolution of the group's financial performance.

The most important cash-generating operation comes from the disposal of 50% of Aerialtronics to Aquiline Drones. Drone Volt has invested €2.6m to acquire Aerialtronics and has now sold 50% based on a valuation of €15m. This represents an extraordinary net added value of €6.5m for H1.

In the past, Drone Volt has been criticised for its excessive share dilution programmes. Yet this has enabled the drone company to strengthen its balance sheet significantly. Its equity has reached its highest level at €30m and its net debt is now close to zero. It has also managed to remove its most expensive debt of €800k and at an interest rate of 12%. This strong cash position will enable Drone Volt to grow externally (we will develop on this later).

H1 has also been when major contracts were signed with Aquiline Drones. We believe these contracts are the main catalysts for H2 which could catapult Drone Volt into a new dimension.

#### Aquiline Drone's mega-contracts

Aquiline Drones still doesn't have the capacity to produce the drones, but it is already experiencing strong customer demand. While it is preparing its plant in Connecticut, Aquiline Drones must order its drones from Drone Volt to answer the current demand. This has led to the following two mega-contracts.

First, Aquiline has ordered 600 Hercules 2 drones in April. This order alone would represent €3m at the catalogue price, already nearly as much as the sales in H1.



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### Buy Upside: 80.6%

Target Price (6 months) € 0.27

Share Price € 0.15

Market Cap. €M 39.5

Price Momentum **NEGATIVE**

Extremes 12Months 0.14 ▶ 0.39

Sustainability score 3.9 /10

Credit Risk CCC →

Bloomberg ALDRV FP Equity

Reuters ALDRV.PA



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PERF	1w	1m	3m	12m
Drone Volt	-4.29%	4.04%	-15.2%	-53.8%
Aerospace-Defence	3.68%	2.10%	1.37%	57.1%
STOXX 600	0.33%	-0.91%	3.18%	30.0%

Last updated: 24/09/2021	12/20A	12/21E	12/22E	12/23E
Adjusted P/E (x)	-3.14	ns	25.1	12.3
Dividend yield (%)	0.00	0.00	0.00	0.00
EV/EBITDA(R) (x)	-12.1	-3.49	-3.04	-1.29
Adjusted EPS (€)	-0.05	0.00	0.01	0.01
Growth in EPS (%)	n/a	n/a	n/a	104
Dividend (€)	0.00	0.00	0.00	0.00
Sales (€th)	5,836	11,532	15,806	18,769
Other margin (%)	29.3	46.3	50.8	61.2
Attributable net profit (€th)	-6,393	6,232	1,569	3,256
ROE (after tax) (%)	-47.6	30.3	6.52	12.3
Gearing (%)	8.95	-35.1	-61.9	-62.1

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

Drone Volt is currently producing 40 Hercules 2 a week and is planning on ramping up production to 60 by the end of the year. The current guidance implies that 150 drones will be sold in Q3 and the remaining 450 will be sold in Q4.

Secondly, Drone Volt signed another major contract concerning up to 500 Hercules 20 drones and 200 Hercules 10 for a total catalogue value of €15m spread over 2021 and 2022. However, it is not a fixed contract, and we believe 40% of this revenue will be received by Drone Volt of which 20% by FY21. The reason for this small per cent of execution in FY21 is because Drone Volt is prioritising the production and delivery of its 600 H2 contract, which is a firm contract.

With these two contracts alone, we expect Drone Volt to achieve nearly €3.4m by the end of the year, which is already similar to the sales in the first half-year.

### **Delays in Hungary**

Only 5 drones were delivered so far due to severe COVID-19 restrictions in Hungary. Given the few orders by this customer, it would appear unrealistic that the order will be completed by FY21. However, for the moment there has been no cancellations. This suggests that the revenues not made this year will be made next year. We estimate this contract to be completed by H1 22.

### **Line Drone with Hydro Quebec**

Even though this drone is still work in progress, the future applications and profitability are promising. The Line Drone will enable customers to repair electric wires remotely. This solution prevents the drastic measures such as deploying helicopters or putting humans 20 metres high with the power on the wires shut down. Shutting down the power in a wire for an hour can cost up to €50k! As the maintenance of the wires is so expensive, Drone Volt has significant pricing power and plans on selling the Line Drone for €350k, which is still probably cheaper than deploying a helicopter twice. We believe this drone could be a catalyst for the coming years as it could be very profitable (even though Drone Volt would pay 15% of the sales to Hydro Quebec for the licence).

### **Future acquisitions**

Through its healthy balance sheet, Drone Volt is looking for a target to expand its offer. Its first choice would be to acquire a service provider. Most of the large customers do not want to waste time and money on training and hiring specialised employees for very specific missions that could occur infrequently. However, there is a need and solid added value for customers to use Drone Volt's drones. The simplest way to answer customers' needs is to provide an embedded solution with drones and services that could be billed by the hour.

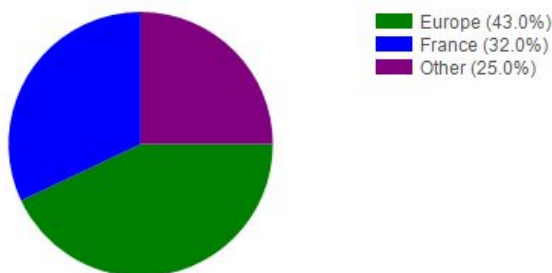
The second potential type of target could be a technological acquisition that enables Drone Volt to have hydrogen-fuelled drones. On top of being green, hydrogen could increase the autonomy of drones. For agricultural customers, the autonomy is essential as it takes many rounds of the Hercules 20 to spray a large field of crops. There could be significant added value for customers to reduce the recharge time. Drone Volt has already looked at companies such as Skycorp and Roth2 for their hydrogen competencies.

## **■ Impact**

The H1 performance is only the introduction to the second half of the year which we believe will be extraordinary for Drone Volt. We cut back our estimates for FY21 as the contracts involving the 500 H20 and the 200 H10 has been pushed forward, as Drone Volt is prioritising its 600 H2 contract. However, this has not changed our fundamental view on the stock as the drones that are not delivered

this year could be delivered in the next. We reiterate our positive view on the stock.

## Sales by Geography



## Consolidated P&L Accounts

		12/20A	12/21E	12/22E
Sales	€th	5,836	11,532	15,806
Change in sales	%	-17.9	97.6	37.1
Change in staff costs	%	-5.12	5.40	17.0
EBITDA	€th	-2,065	1,078	3,217
<b>EBITDA(R) margin</b>	%	<b>-35.4</b>	<b>9.35</b>	<b>20.4</b>
Depreciation	€th			
Underlying operating profit	€th	-4,189	-1,474	1,784
<b>Operating profit (EBIT)</b>	<b>€th</b>	<b>-8,181</b>	<b>-774</b>	<b>1,491</b>
Net financial expense	€th	-673	-341	-266
of which related to pensions	€th		0.00	0.00
Exceptional items & other	€th		6,500	
Corporate tax	€th	2,209	278	-306
Equity associates	€th			
Minority interests	€th	252	569	650
<b>Adjusted attributable net profit</b>	<b>€th</b>	<b>-6,393</b>	<b>-268</b>	<b>1,569</b>
NOPAT	€th	-2,932	-1,032	1,249

## Cashflow Statement

		12/20A	12/21E	12/22E
EBITDA	€th	-2,065	1,078	3,217
Change in WCR	€th	1,685	245	-62.0
Actual div. received from equity holdi...	€th	0.00	0.00	0.00
Paid taxes	€th	2,209	278	-306
Exceptional items	€th			
Other operating cash flows	€th	-991	-286	-225
Total operating cash flows	€th	838	1,315	2,624
Capital expenditure	€th	-1,810	-1,995	-1,955
Total investment flows	€th	-8,992	5,505	-1,955
Net interest expense	€th	-673	-341	-266
Dividends (parent company)	€th			
Dividends to minorities interests	€th	0.00	0.00	0.00
New shareholders' equity	€th	8,590	6,178	1,000
Total financial flows	€th	13,967	2,537	2,734
Change in cash position	€th	5,812	9,357	3,403
<b>Free cash flow (pre div.)</b>	<b>€th</b>	<b>-1,645</b>	<b>-1,021</b>	<b>403</b>

## Per Share Data

		12/20A	12/21E	12/22E
No. of shares net of treas. stock (year...	Th	198,523	259,963	264,509
Number of diluted shares (average)	Th	131,321	230,360	263,353
<b>Benchmark EPS</b>	<b>€</b>	<b>-0.05</b>	<b>0.00</b>	<b>0.01</b>
Restated NAV per share	€			
<b>Net dividend per share</b>	<b>€</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

## Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 0.37	35%	● KUKA
NAV/SOTP per share	€ 0.29	20%	
EV/Ebitda	€ 0.30	20%	
P/E	€ 0.07	10%	
Dividend Yield	€ 0.00	10%	
P/Book	€ 0.29	5%	
TARGET PRICE	€ 0.27	100%	

### NAV/SOTP Calculation

## Balance Sheet

		12/20A	12/21E	12/22E
Goodwill	€th	152	150	149
Total intangible	€th	5,477	5,376	5,554
Tangible fixed assets	€th	743	1,130	1,268
Financial fixed assets	€th			
WCR	€th	1,360	1,115	1,177
Other assets	€th	7,656	7,120	6,622
Total assets (net of short term liab.)	€th	19,985	20,849	21,035
<b>Ordinary shareholders' equity</b>	<b>€th</b>	<b>17,640</b>	<b>23,482</b>	<b>24,663</b>
Quasi Equity & Preferred	€th			
Minority interests	€th	-129	7,100	7,010
Provisions for pensions	€th		0.00	0.00
Other provisions for risks and liabilities	€th	244	281	323
Total provisions for risks and liabilities	€th	244	281	323
Tax liabilities	€th	0.00	0.00	0.00
Other liabilities	€th	4,141	4,555	5,011
<b>Net debt (cash)</b>	<b>€th</b>	<b>-1,911</b>	<b>-14,568</b>	<b>-15,971</b>
Total liab. and shareholders' equity	€th	19,985	20,849	21,035

## Capital Employed

		12/20A	12/21E	12/22E
Capital employed after depreciation	€th	7,580	7,621	7,999

## Profits & Risks Ratios

		12/20A	12/21E	12/22E
<b>ROE (after tax)</b>	%	<b>-47.6</b>	<b>30.3</b>	<b>6.52</b>
ROCE	%	-38.7	-13.5	15.6
<b>Gearing (at book value)</b>	%	<b>8.95</b>	<b>-35.1</b>	<b>-61.9</b>
Adj. Net debt/EBITDA(R)	x	0.93	-13.5	-4.96
Interest cover (x)	x	-6.22	-4.32	6.70

## Valuation Ratios

		12/20A	12/21E	12/22E
<b>Reference P/E (benchmark)</b>	<b>x</b>	<b>-3.14</b>	<b>ns</b>	<b>25.1</b>
Free cash flow yield	%	-5.41	-2.63	1.02
P/Book	x	1.72	1.65	1.60
<b>Dividend yield</b>	%	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

## EV Calculation

		12/20A	12/21E	12/22E
Market cap	€th	30,389	38,813	39,491
+ Provisions	€th	244	281	323
+ Unrecognised actuarial losses/(gains)	€th	0.00	0.00	0.00
+ Net debt at year end	€th	-2,172	-14,842	-16,259
+ Leases debt equivalent	€th	0.00	0.00	0.00
- Financial fixed assets (fair value)	€th	3,898	6,712	12,305
+ Minority interests (fair value)	€th	387	-21,300	-21,030
= EV	€th	24,949	-3,761	-9,780
<b>EV/EBITDA(R)</b>	<b>x</b>	<b>-12.1</b>	<b>-3.49</b>	<b>-3.04</b>
EV/Sales	x	4.28	-0.33	-0.62

Analyst : Romain Pierredon, Changes to Forecasts : 24/09/2021.