Ecoslops

Other Energies / France

You can continue to receive AlphaValue's Research under MiFID II Learn more

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

Lighter, greener, richer

Earnings/sales releases - 06/04/2018

Ecoslops delivers strong cash flow generation from its first slops refining plant. It envisages an even brighter future made of similarly planned units in Marseilles and Antwerp as well as tiny ones ("refineries in a box") adapted to a wider market. Slops (i.e. waste oil products) processing appears to be a bigger market than anticipated.

Fact

Doubters of two years ago when Ecoslops went live on the stock market will have to capitulate in the face of Ecoslops 2017 earnings which show a strong FCF generation from its current unique plant. This performance is hidden in bottom-line terms (€-1.4m loss when we contemplated €-0.9m) by substantial development-type opex as the tiny group invests in more capacity in at least two new ports (Marseilles and Antwerp) and in technology to address smaller unitary markets.

Income Statement 2017

In € millions	2017	2016	Var.
Turnover	6,1	4,2	+1,9
Other Income	0,4	0,2	+0,2
Gross Margin	5,6	3,1	+2,5
Operating Costs (excluding depreciation)	-6,0	-6,0	+0,0
In France	-2,1	-1,8	-0,3
In Sines	-3,9	-4,2	+0,3
EBITDA	-0,3	-2,9	+2,6
Depreciation	-1,3	-1,1	-0,2
Operating Results	-1,6	-4,0	+2,4
Financial Results	-0,1	-0,3	+0,2
Taxes	0,4	0,9	-0,5
Net Profit (Income)	-1,35	-3,4	+2,1

The balance sheet has been made even stronger as convertibles have been converted and a 2017 €5m rights issue have injected in all a total €10.5m in fresh resources. The net cash position at c.6.5m is enough to fund Ecoslops' share of new projects.

Analysis

As a reminder, Ecoslops turns slops collected from ships into useful refined products instead of burning them. Its stock in trade is to have designed and deployed what amounts to a micro refinery geared to the poor quality of inputs (slops). The first such capacity in Sines (Portugal) has performed beautifully in 2017 with a 22,000 tons run vs a nominal capacity of 30,000 tons. This is in itself quite a feat with a FCF generation at €0.5m from that unit.

Whereas the initial business model was dependent on finding enough slops to process without pushing their price up (they can have a negative price depending on local market conditions), the issue of realisation prices has never been a real one. It is even less so now that crude prices are firming up. The 2017 twist in the business has been the recognition that onshore slops are actually abundant and of better quality (i.e. lighter) than shipping ones.

Buy	Upside: 52.2%
Target Price (6 months)	€ 20.3
Share Price	€ 13.4
Market Cap. €M	58.5
Price Momentum	UNFAVORABLE
Extremes 12Months	10.2 ▶ 17.0
Bloomberg	ALESA FP Equity
Reuters	ALESA.PA

Download Full Analysis Company Page

PERF	1w	1m	3m	12m
Ecoslops	4.30%	11.3%	-7.29%	21.7%
Oils	4.14%	5.29%	-1.05%	12.2%
STOXX 600	1.42%	1.28%	-5.34%	-1.04%

Last updated: 30/10/2017	12/15A	12/16A	12/17E	12/18E
Adjusted P/E (x)	-5.93	-8.78	ns	ns
Dividend yield (%)	0.00	0.00	0.00	0.00
EV/EBITDA(R) (x)	-10.3	-14.4	80.8	30.0
Adjusted EPS (€)	-2.13	-1.02	-0.22	0.05
Growth in EPS (%)	n/a	n/a	n/a	n/a
Dividend (€)	0.00	0.00	0.00	0.00
Sales (€th)	2,296	4,366	7,060	10,140
EBITDA/R margin (%)	ns	-65.9	1.16	17.9
Attributable net profit (€th)	-5,837	-3,420	-873	211
ROE (after tax) (%)	-67.2	-26.1	-6.15	1.34
Gearing (%)	83.3	79.1	56.3	107

Company Valuation - Company Financials

This leaves an opportunity to go for more of the light-refined products which are easier to sell and improve the mix per ton of output. A first substantial step in the marketability of such light-refined products has been achieved with a 2017 agreement with Galp that mixes its own diesel fuel with that from the Ecoslops unit in Sines.

Ecoslops ongoing strategy is to tweak its new capacity (Marseilles by 2019, then Antwerp by 2020) so that it can process such lighter slops (which are more inflammable). It also took the risk of adjusting the Sines capacity so that it can accept lighter feedstocks. The cost is not small as it involves a three-month stoppage of production over Q1. Management still sees a case to deliver 25,000t in 2018, presumably with higher netbacks following the upgrade to lighter, more expensive products.

Near-term acceleration
One of the good points of the latest communiqué is that plant number 2 in Marseilles seems on track. Of course the experience curve is partly there but it is in a JV with Total (25% stake) which could have been a calendar curse on quality /safety issues. So far so good with financing about completed (€7m of fresh debt found out of the €9m needed). The next big step 12 months later is to deploy a twice as big unit in Antwerp with essentially the same design and the same project team. By contrast with the Sines prototype pains, the Belgian unit looks like a walk in the park.

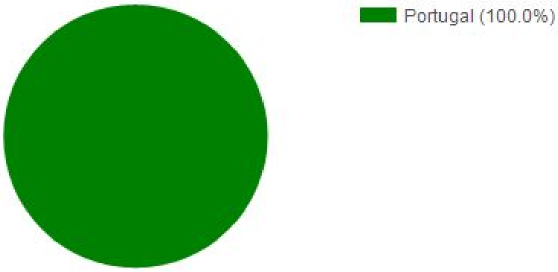
Pico refineries the next big thing
Ecoslops is making a convincing case of the fact that it has a working design of a tiny refinery in a container (or two for that matter) which could be fully transportable and automated. This fits with ports/locations where the slops to be processed account for less than 4,000t/year.
The attraction is that the market is about 10 times larger and the business model could shift from build, own and operate to build and rent with a service contract attached or build and sell, etc. It is just then a question of arbitrage between financial terms and servicing. Clearly the maintenance side may be attractive in profitability terms. And there is no reason to think that the service dimension could not be extended to sticking a power generation unit next to the pico refinery (dubbed “Mini-P2R”).
The business model would thus move from a refinery owner and operator to that of a capital goods supplier with all sorts of servicing and maintenance contracts attached à la Wärtsilä, not to mention lift manufacturers.

Green clothes
As the name implies, Ecoslops turns waste into a useful product. Its green credentials as a cleantech have yet to be fully assessed as there are no proper metrics to value its environmental benefits. Whereas most of the slops are no longer dumped at sea, their use as low energy, dirty, heavy burning fuels typically in cement production is environmentally less attractive than as refined quality products. How to value that avoided pollution is an open question as the carbon content itself is not that different.
This obvious point may be complemented by the deployment of the refineries-in-a-box as such refineries will help recover oil-related waste in otherwise uneconomical circumstances with a net gain for the environment.

Impact

Allowing for the 2017 release will bring down the earnings for that year as we were a bit too optimistic, while the fast forward deployment of new sites and possibly of tiny units is likely to keep opex costs at a high level. The near-term earnings outlook shall be trimmed a bit but the valuation is likely to remain attractive.

Sales by Geography



Valuation Summary

Benchmarks	Value	Weight
DCF	€ 28.9	40%
NAV/SOTP per share	€ 20.1	40%
P/E	€ 6.68	5%
EV/Ebitda	€ 0.00	5%
P/Book	€ 8.20	5%
Dividend Yield	€ 0.00	5%
TARGET PRICE	€ 20.3	100%

NAV/SOTP Calculation

Largest comparables

- Neste
- Galp Energia
- Saras
- Hellenic Petroleum
- Acciona

Consolidated P&L Accounts

		12/16A	12/17E	12/18E
Sales	€th	4,366	7,060	10,140
Change in sales	%	90.2	61.7	43.6
Change in staff costs	%	-13.9	2.94	42.9
EBITDA	€th	-2,875	778	2,811
EBITDA(R) margin	**%**	**-65.9**	**11.0**	**27.7**
Depreciation	€th	-1,114	-1,334	-1,454
Underlying operating profit	€th	-4,023	-555	1,357
Operating profit (EBIT)	**€th**	**-4,023**	**-555**	**1,357**
Net financial expense	€th	-319	-318	-752
of which related to pensions	€th		0.00	0.00
Exceptional items & other	€th	-3.68	0.00	0.00
Corporate tax	€th	926	-0.44	-394
Equity associates	€th	0.00	0.00	0.00
Minority interests	€th	0.00	0.00	0.00
Adjusted attributable net profit	**€th**	**-3,420**	**-873**	**211**
NOPAT	€th	-2,816	-389	950

Cashflow Statement

		12/16A	12/17E	12/18E
EBITDA	€th	-2,875	778	2,811
Change in WCR	€th	609	-1,095	-290
Actual div. received from equity holdi...	€th	0.00	0.00	0.00
Paid taxes	€th	0.00	-0.44	-394
Exceptional items	€th	0.00	0.00	0.00
Other operating cash flows	€th	-637	-215	-1,000
Total operating cash flows	€th	-2,904	-532	1,127
Capital expenditure	€th	-374	-249	-19,200
Total investment flows	€th	-374	-249	-19,200
Net interest expense	€th	-319	-318	-752
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	1,915	4,980	51.3
Total financial flows	€th	5,965	-1.19	17,498
Change in cash position	€th	2,687	-783	-575
Free cash flow (pre div.)	**€th**	**-3,596**	**-1,099**	**-18,825**

Per Share Data

		12/16A	12/17E	12/18E
No. of shares net of treas. stock (year...	Th	3,372	4,382	4,382
Number of diluted shares (average)	Th	3,340	3,946	4,453
Benchmark EPS	**€**	**-1.02**	**-0.22**	**0.05**
Restated NAV per share	€			
Net dividend per share	**€**	**0.00**	**0.00**	**0.00**

Balance Sheet

		12/16A	12/17E	12/18E
Goodwill	€th	0.00	0.00	0.00
Total intangible	€th	542	492	492
Tangible fixed assets	€th	17,689	16,660	34,406
Financial fixed assets	€th	19.1	19.1	19.1
WCR	€th	164	1,259	1,549
Other assets	€th	3,380	3,386	3,386
Total assets (net of short term liab.)	€th	23,907	23,967	42,003
Ordinary shareholders' equity	**€th**	**12,297**	**16,129**	**15,392**
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	0.00
Other provisions for risks and liabilities	€th	33.8	0.00	0.00
Total provisions for risks and liabilities	€th	33.8	0.00	0.00
Tax liabilities	€th	0.00	0.00	0.00
Other liabilities	€th	564	705	705
Net debt (cash)	**€th**	**11,014**	**7,133**	**25,907**
Total liab. and shareholders' equity	€th	23,908	23,967	42,003

Capital Employed

		12/16A	12/17E	12/18E
Capital employed after depreciation	€th	18,415	18,430	36,466

Profits & Risks Ratios

		12/16A	12/17E	12/18E
ROE (after tax)	**%**	**-26.1**	**-6.15**	**1.34**
ROCE	%	-15.3	-2.11	2.60
Gearing (at book value)	**%**	**79.1**	**56.3**	**107**
Adj. Net debt/EBITDA(R)	x	-3.83	9.16	9.22
Interest cover (x)	x	-12.6	-1.75	1.80

Valuation Ratios

		12/16A	12/17E	12/18E
Reference P/E (benchmark)	**x**	**-8.78**	**ns**	**ns**
Free cash flow yield	%	-11.9	-1.97	-32.2
P/Book	x	2.47	3.46	3.80
Dividend yield	**%**	**0.00**	**0.00**	**0.00**

EV Calculation

		12/16A	12/17E	12/18E
Market cap	€th	30,314	55,735	58,494
+ Provisions	€th	33.8	0.00	0.00
+ Unrecognised acturial losses/(gains)	€th	0.00	0.00	0.00
+ Net debt at year end	€th	11,014	7,133	25,907
+ Leases debt equivalent	€th	0.00	0.00	0.00
- Financial fixed assets (fair value)	€th			
+ Minority interests (fair value)	€th			
= EV	€th	41,362	62,868	84,401
EV/EBITDA(R)	**x**	**-14.4**	**80.8**	**30.0**
EV/Sales	x	9.47	8.90	8.32