



A solution provider to the energy industry

Initiation cov. - 24/10/2018

We initiate coverage of Dietswell (Buy): the company is an engineering contractor to the oil, gas and energy sectors. It is an asset-light company with technical knowledge that provides solutions to its clients along the complete drilling value chain. As part of its diversification strategy, Dietswell is using its competencies gained in offshore oil and gas activities to design and develop an offshore floater for wind turbines.

This is not the first time an oil and gas contractor has moved to offshore wind (e.g. subsea 7) and Dietswell's track record in offshore drilling should prove to have an edge over companies specialised in onshore wind as it has transferable skills and it is used to tight capital spending.

Being an asset-light company, it managed to weather the 2014-17 oil downturn (which extended into 2018 for oil services companies) by reducing its cost base significantly (overhead costs are down 35% between 2014 and 2018), with the audit and inspection divisions keeping the company afloat while research and development was geared towards renewable energies. Management is committed to gaining exposure to the renewable industry and increase shareholders' value as it has skin in the game with a 19% stake in the company.

Traditional businesses supported by strong oil

After reaching a low point in Q4 17 and Q1 18, we expect activity to continue its recovery in rig inspection and technical workforce and return to pre-crisis levels in 2020 for two main reasons:

1. strong oil prices support drilling activity to restart fast, on which Dietswell can bring its expertise, such as in rig reactivation. This acceleration in drilling activities already shows up in Dietswell's backlog. It stood at €9.4m in August 2018, a €1.1m increase against June 2018;
2. workforce reductions from the oil majors during the downturn should boost manpower outsourcing in operational activities.

We also expect the engineering and project management divisions to pick up again, although at a slower pace than rig inspection and technical workforce. Dietswell has expertise that can be applied early in the cycle, such as technical refurbishment, yet offshore drilling remains subdued and it might take more time to generate contracts.

Offshore wind potential

Most of the upside stems from the new division Dietswell is launching in the floating offshore wind (FOW) market. The group is using its competencies gained in offshore activities to design and develop a semi-submersible float able to support 6-12MW offshore wind turbines.

The offshore wind market is currently in its infancy (50MW installed capacity at end 2017) and growth is expected to be driven by drastic cuts in costs per MWh, similar to the fixed offshore industry, where costs have declined to €80-110/MWh.

On the mid-term, we forecast the total FOW installed capacity to reach c.12GW by 2030, in line with research studies and corporate outlooks (Equinor). We expect Dietswell to be able to grasp c.8% of this total market. Based on this



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

Buy Upside: 165%

Target Price (6 months) € 2.52

Share Price € 0.95

Market Cap. €M 6.05

Price Momentum **UNFAVORABLE**

Extremes 12Months 0.70 ▶ 2.20

Bloomberg ALDIE FP Equity

Reuters ALDIE.PA

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PERF	1w	1m	3m	12m
Dietswell	0.53%	23.4%	-22.1%	-36.2%
Capital Goods	-1.53%	-12.4%	-14.4%	-16.3%
STOXX 600	-2.46%	-8.49%	-9.78%	-9.95%

Last updated: 24/10/2018	12/16A	12/17A	12/18E	12/19E
Adjusted P/E (x)	-7.65	-5.73	-6.73	-6.11
Dividend yield (%)	0.00	0.00	0.00	0.00
EV/EBITDA(R) (x)	39.2	-13.0	28.0	12.3
Adjusted EPS (€)	-0.20	-0.21	-0.14	-0.16
Growth in EPS (%)	n/a	n/a	n/a	n/a
Dividend (€)	0.00	0.00	0.00	0.00
Sales (€th)	12,491	6,774	6,550	13,625
EBIT margin (%)	-21.8	-2.55	-18.6	-0.59
Attributable net profit (€th)	-4,525	-1,210	-823	-989
ROE (after tax) (%)	-66.8	-31.0	-23.2	-28.7
Gearing (%)	-9.29	-1.11	13.4	112

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scenario, we estimate that the group will land its first contract in 2019 (one unit) and progressively ramp up its production rate to 13-14 units by 2030.

The oil services industry could be another driver for FOW as small-to-medium size floating wind farms could be used both economically and environmentally to power offshore oil & gas drilling and production installations. Dietswell is already active in this niche market and landed a contract for a preliminary study in H2 18.

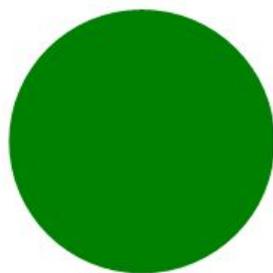
The main risks come from competition in the FOW market as Dietswell's main competitors are on average a year ahead in terms of developments (Naval/Eolfi, PPI, Ideol). Risks also include uncertainty around the future capital structure of the New Energies division as Dietswell will need to find a suitable industrial partner to help finance the launch of the activity while providing technical know-how in fields such as maritime installation.

Valuation

In a nutshell, Dietswell has two divisions which ensure rather stable cash flows (rig inspection and technical workforce), another two divisions the activities of which are more lumpy and dependent on exploration and production spending (engineering and project management) and one division with high growth potential (renewable energies).

The current market capitalisation stands at c. €5.70m with the share price at €0.90. We see Dietswell as an undervalued company, with a large upside (+179%) based on the recurrence of its traditional activities, the recovery in oil prices and the potential of the offshore floater.

Sales by Geography



Other (100.0%)

Consolidated P&L Accounts

		12/17A	12/18E	12/19E
Sales	€th	6,774	6,550	13,625
Change in sales	%	-45.8	-3.30	108
Change in staff costs	%	3.34	-43.6	-38.1
EBITDA	€th	-561	236	1,073
EBITDA(R) margin	%	-8.28	3.60	7.87
Depreciation	€th			
Underlying operating profit	€th	-865	-160	647
Operating profit (EBIT)	€th	-173	-768	203
Net financial expense	€th	-207	-55.5	-951
of which related to pensions	€th		-2.85	-6.36
Exceptional items & other	€th	-828	0.00	0.00
Corporate tax	€th	-1.78	-0.03	-242
Equity associates	€th			
Minority interests	€th			
Adjusted attributable net profit	€th	-1,103	-823	-989
NOPAT	€th	-46.0	-536	147

Cashflow Statement

EBITDA	€th	-561	236	1,073
Change in WCR	€th	53.4	165	-1,144
Actual div. received from equity holdi...	€th	0.00	0.00	0.00
Paid taxes	€th	-1.78	-0.03	-242
Exceptional items	€th			
Other operating cash flows	€th	-256		
Total operating cash flows	€th	-765	401	-313
Capital expenditure	€th	-1,094	-700	-300
Total investment flows	€th	-1,042	-700	-5,300
Net interest expense	€th	-207	-55.5	-951
Dividends (parent company)	€th			
Dividends to minorities interests	€th	0.00	0.00	0.00
New shareholders' equity	€th		1,061	0.00
Total financial flows	€th	890	1,067	6,382
Change in cash position	€th	-918	768	769
Free cash flow (pre div.)	€th	-2,067	-354	-1,564

Per Share Data

No. of shares net of treas. stock (year...	Th	5,303	6,364	6,364
Number of diluted shares (average)	Th	5,303	5,834	6,364
Benchmark EPS	€	-0.21	-0.14	-0.16
Restated NAV per share	€			
Net dividend per share	€	0.00	0.00	0.00

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 4.16	35%	● TechnipFMC
NAV/SOTP per share	€ 4.81	20%	● Saipem
EV/Ebitda	€ 0.13	20%	● Elecnor
P/E	€ 0.48	10%	● Ecoslops
Dividend Yield	€ 0.00	10%	
P/Book	€ 0.48	5%	
TARGET PRICE	€ 2.52	100%	

NAV/SOTP Calculation

Balance Sheet

		12/17A	12/18E	12/19E
Goodwill	€th			
Total intangible	€th	1,969	2,273	2,147
Tangible fixed assets	€th	1,186	1,186	1,186
Financial fixed assets	€th			
WCR	€th	1,922	1,757	2,901
Other assets	€th	234	203	203
Total assets (net of short term liab.)	€th	5,374	5,481	6,500
Ordinary shareholders' equity	€th	3,294	3,818	3,078
Quasi Equity & Preferred	€th			
Minority interests	€th			-4,804
Provisions for pensions	€th		297	301
Other provisions for risks and liabilities	€th	110	110	110
Total provisions for risks and liabilities	€th	110	407	411
Tax liabilities	€th	1,099	1,099	1,099
Other liabilities	€th	3.87	0.00	0.00
Net debt (cash)	€th	867	158	6,715
Total liab. and shareholders' equity	€th	5,374	5,481	6,500

Capital Employed

Capital employed after depreciation	€th	5,078	5,216	6,235
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Profits & Risks Ratios

ROE (after tax)	%	-31.0	-23.2	-28.7
ROCE	%	-0.91	-10.3	2.35
Gearing (at book value)	%	-1.11	13.4	112
Adj. Net debt/EBITDA(R)	x	-1.55	0.67	6.26
Interest cover (x)	x	-4.17	-3.04	0.69

Valuation Ratios

Reference P/E (benchmark)	x	-5.73	-6.73	-6.11
Free cash flow yield	%	-32.7	-5.86	-25.9
P/Book	x	1.92	1.58	1.96
Dividend yield	%	0.00	0.00	0.00

EV Calculation

Market cap	€th	6,321	6,046	6,046
+ Provisions	€th	110	407	411
+ Unrecognised actuarial losses/(gains)	€th	0.00	0.00	0.00
+ Net debt at year end	€th	867	158	6,715
+ Leases debt equivalent	€th	0.00	0.00	0.00
- Financial fixed assets (fair value)	€th			
+ Minority interests (fair value)	€th			
= EV	€th	7,298	6,611	13,172
EV/EBITDA(R)	x	-13.0	28.0	12.3
EV/Sales	x	1.08	1.01	0.97

Analyst : Kevin VO, Changes to Forecasts : 24/10/2018.