Dolfines

Engineering-Heavy Constr. / France

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

Operational improvement promising despite the 50% revenue decline, cash problem key to survival

Earnings/sales releases - 03/11/2023

Following the management overhaul in June 2023, Dolfines has undergone a big restructuring to cut costs and overcome operational issues. The governance problems led to a 50% decline in Dolfines' turnover while the other group companies delivered flat performances. Despite cancelled contracts in H1, the company has also signed new ones to support turnover over the next year. The cash position and debt level remain an issue of vital importance despite the improving operational strength.

Fact

Turnover: €3.25m (-26% yoy)

- Dolfines: €1.17m (-51% yoy)
- 8.2 France: €1.58m
- Aegide International: €1.46

Gross cash: €0.75m (-54% compared to December FY22)
Net financial debt: €3.57m (vs. €2.76m in December FY22)

Analysis

Operational performance improves after a major storm
The group's turnover declined by 26% yoy to €3.25m however the result was mainly supported by the group companies 8.2 France and Aegide International. Dolfines' own revenues fell by 51% in H1 compared to the previous year. The group's EBITDA reflected the higher costs in H1 and dropped to €-0.98m (compared to €-0.35m in H1 FY22).

Mounting governance problems were behind Dolfines' disappointing performance. Contract delays and cancellations due to operational struggles, the loss of key technical personnel and structural weakness in demand from traditional customers in the drilling business explained the decline in turnover. On the bright side, the company was awarded three deep offshore contracts with international oil companies in Brazil, the Gulf of Mexico and Malaysia, and additional contracts in West Africa and the Middle East. These contracts, which confirm Dolfines' solid underlying performance and client base, will positively impact turnover in the next 12-18 months. For the remainder of the year, the operational improvement is gathering pace with the massive restructuring (in the workforce and governance) since July bearing fruit.

As for the group companies 8.2 France and Aegide International, acquired in May, their turnover was flat.

8.2 France contributed to completing the first offshore project in France and continues to work with EDF and GE on the other offshore wind projects. In collaboration with Dolfines, 8.2 France developed a technical assistance business at the beginning of the year, which generated modest revenues. **A similar restructuring to Dolfines is underway at 8.2 France, as well as a change in**

Buy	Upside: 154%
Target Price (6 months)	€ 0.00
Share Price	€ 0.00
Market Cap. €M	3.85
Price Momentum	UNFAVORABLE
Extremes 12Months	0.00 ▶ 0.02
Sustainability score	5.5 /10
Credit Risk	DDD
Bloomberg	ALDOL FP Equity
Reuters	ALDOL.PA

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PERF	1w	1m	3m	12m
Dolfines	0.00%	-20.0%	100%	-98.1%
Capital Goods	4.55%	-3.17%	-11.8%	12.3%
STOXX 600	2.37%	0.63%	-3.77%	7.28%

Last updated: 02/11/2023	12/22A	12/23E	12/24E	12/25E
Adjusted P/E (x)	-7.03	-0.83	-34.9	9.51
Dividend yield (%)	0.00	0.00	0.00	0.00
EV/EBITDA(R) (x)	-43.4	-7.73	14.2	3.95
Adjusted EPS (€)	-0.03	0.00	0.00	0.00
Growth in EPS (%)	n/a	n/a	n/a	n/a
Dividend (€)	0.00	0.00	0.00	0.00
Sales (€th)	7,650	7,817	9,833	14,304
EBIT margin (%)	-13.3	-12.8	3.02	7.65
Attributable net profit (€th)	-3,996	-2,392	-110	405
ROE (after tax) (%)	-181	-104	-5.42	12.7
Gearing (%)	81.1	117	94.8	36.4

Company Valuation - Company Financials

management and a reduction in the workforce, generating a 20% decline in personnel costs. In addition to these changes, an uptick in activity improved the cash position while ensuring a promising outlook.

Aegide Internatioal's revenues were stable yoy at around €1.5m with an order book of €1.4m. Moreover, the €2.2m in prospective commercial orders strengthens the backlog visibility. This recent addition to Dolfines continues to be the group's only profitable entity with a positive EBITDA.

Although the H1 was an excruciatingly difficult period for Dolfines, sweeping governance changes, rapid cost reduction and the committed client base all drove an improvement in the operational performance, which will facilitate rapid cash generation when/(if) the balance sheet problems are resolved.

The financing way forward

While we are happy to see Dolfines firmly executing a transformative strategy under the new CEO Adrien Bourdon-Feniou, the overwhelming financing problems are currently overshadowing the company's operational strength.

The group's net debt of €3.57m (87% of which is on Dolfines' books) is too high for the company's size. With a recovering business, the cash problem makes it difficult for the company to finance working capital requirements and pay down debt.

The cash position stood at around €0.75m (€0.9m in September 2023), which was 54% lower compared to H1 FY22, as it has deteriorated dramatically over the past year. **Although the company can generate operating cash flow on the back of a better operational performance in H2, the working capital issues keep burning cash – bringing us to the balance sheet issue.**

With an over-stretched balance sheet, Dolfines must raise new financing as soon as possible – either as equity or debt. No information concerning the options has hitherto been revealed, yet it is certain that **the financing will be dilutive.**

The big problem in finding capital is the 350 convertible bonds NEGMA is holding – the outstanding bonds on last year's financing with the company. NEGMA is currently blocked from converting these shares, yet they hang over Dolfines and its shareholders like a Damocles sword.

At this point, it is difficult to guesstimate the scale of the dilution from a new financing instrument. Dolfines, however, needs around €2m to finance its working capital needs. €2m in equity funding is akin to trebling the current market cap (€1m) which implies that the number of shares needs to jump from c.3bn to c.10bn. This is technically difficult as the shares are currently trading below par. Presumably a recap can only happen hand in hand with a share regrouping by (our guess) a factor of 1,000. Going for debt (assuming a lender is found) would not change the implied further dilution of EPS. For our modelling purposes, we assume that €2m will be raised for equity funding at the share price of €0.0003/sh – much lower than the par value €0.01 – creating 6.65 billion new shares.

When the company is able to finance its WC, its ability to generate cash will help with deleveraging.

The improvement trajectory for operations thanks to the changing governance structure could make Dolfines a net cash company by 2025 if its balance sheet can take a breather with a fresh injection.

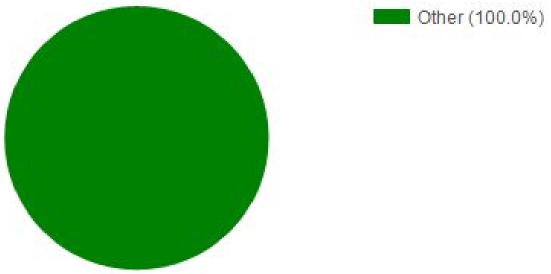
Impact

We have updated our model after this release to account for the potential dilution and decrease in our revenue forecasts.

Our model now accounts for the potential dilution after the impending refinancing with the outstanding shares number of amounting to nearly 10 billion.

We have cut our FY23 turnover forecast by nearly 15% to €7.82m and our FY24 turnover forecast by 5%.

Sales by Geography



Valuation Summary

Benchmarks	Value	Weight
DCF	€ 0.00	35%
NAV/SOTP per share	€ 0.00	20%
EV/Ebitda	€ 0.00	20%
P/E	€ 0.00	10%
Dividend Yield	€ 0.00	10%
P/Book	€ 0.00	5%
TARGET PRICE	€ 0.00	100%

NAV/SOTP Calculation

Largest comparables

- Nordex SE
- Elecnor

Consolidated P&L Accounts

		12/22A	12/23E	12/24E
Sales	€th	7,650	7,817	9,833
Change in sales	%	74.2	2.18	25.8
Change in staff costs	%	152	6.76	-1.33
EBITDA	€th	-1,280	-846	413
EBITDA(R) margin	**%**	**-16.7**	**-10.8**	**4.20**
Depreciation	€th			
Underlying operating profit	€th	-1,596	-1,192	37.2
Operating profit (EBIT)	**€th**	**-1,596**	**-1,192**	**37.2**
Net financial expense	€th	-2,400	-1,200	-136
of which related to pensions	€th		0.00	0.00
Exceptional items & other	€th	0.00	0.00	0.00
Corporate tax	€th	0.00	0.00	-11.2
Equity associates	€th			
Minority interests	€th			
Adjusted attributable net profit	**€th**	**-4,176**	**-2,392**	**-110**
NOPAT	€th	-1,197	-894	27.9

Cashflow Statement

		12/22A	12/23E	12/24E
EBITDA	€th	-1,280	-846	413
Change in WCR	€th	0.00	0.00	0.00
Actual div. received from equity holdi...	€th	0.00	0.00	0.00
Paid taxes	€th		0.00	-11.2
Exceptional items	€th			
Other operating cash flows	€th			
Total operating cash flows	€th	-1,280	-846	402
Capital expenditure	€th	-600	-600	-600
Total investment flows	€th	-600	-600	-600
Net interest expense	€th	-2,400	-1,200	-136
Dividends (parent company)	€th			
Dividends to minorities interests	€th	0.00	0.00	0.00
New shareholders' equity	€th	4,000	1,000	1,000
Total financial flows	€th	1,600	-200	864
Change in cash position	€th	-280	-1,646	666
Free cash flow (pre div.)	**€th**	**-4,280**	**-2,646**	**-334**

Per Share Data

		12/22A	12/23E	12/24E
No. of shares net of treas. stock (year...	Th	245,779	9,625,615	9,625,615
Number of diluted shares (average)	Th	132,462	4,936,697	9,627,615
Benchmark EPS	**€**	**-0.03**	**0.00**	**0.00**
Restated NAV per share	€			
Net dividend per share	**€**	**0.00**	**0.00**	**0.00**

Balance Sheet

		12/22A	12/23E	12/24E
Goodwill	€th			
Total intangible	€th	3,860	4,114	4,338
Tangible fixed assets	€th	24.3	24.3	24.3
Financial fixed assets	€th			
WCR	€th	1,071	1,071	1,071
Other assets	€th	67.1	67.1	67.1
Total assets (net of short term liab.)	€th	6,289	6,543	6,767
Ordinary shareholders' equity	**€th**	**2,990**	**1,593**	**2,483**
Quasi Equity & Preferred	€th			
Minority interests	€th	0.00	0.00	0.00
Provisions for pensions	€th		0.00	0.00
Other provisions for risks and liabilities	€th	3.34	3.34	3.34
Total provisions for risks and liabilities	€th	3.34	3.34	3.34
Tax liabilities	€th	1,031	1,031	1,031
Other liabilities	€th	1,230	1,230	1,230
Net debt (cash)	**€th**	**1,040**	**2,686**	**2,020**
Total liab. and shareholders' equity	€th	6,294	6,543	6,767

Capital Employed

		12/22A	12/23E	12/24E
Capital employed after depreciation	€th	4,955	5,209	5,433

Profits & Risks Ratios

		12/22A	12/23E	12/24E
ROE (after tax)	**%**	**-181**	**-104**	**-5.42**
ROCE	%	-24.2	-17.2	0.51
Gearing (at book value)	**%**	**81.1**	**117**	**94.8**
Adj. Net debt/EBITDA(R)	x	-0.81	-3.17	4.89
Interest cover (x)	x	-0.67	-0.99	0.27

Valuation Ratios

		12/22A	12/23E	12/24E
Reference P/E (benchmark)	**x**	**-7.03**	**-0.83**	**-34.9**
Free cash flow yield	%	-7.85	-68.7	-8.68
P/Book	x	18.2	2.42	1.55
Dividend yield	**%**	**0.00**	**0.00**	**0.00**

EV Calculation

		12/22A	12/23E	12/24E
Market cap	€th	54,499	3,850	3,850
+ Provisions	€th	3.34	3.34	3.34
+ Unrecognised acturial losses/(gains)	€th	0.00	0.00	0.00
+ Net debt at year end	€th	1,040	2,686	2,020
+ Leases debt equivalent	€th	0.00	0.00	0.00
- Financial fixed assets (fair value)	€th			
+ Minority interests (fair value)	€th			
= EV	€th	55,543	6,540	5,874
EV/EBITDA(R)	**x**	**-43.4**	**-7.73**	**14.2**
EV/Sales	x	7.26	0.84	0.60

Analyst : Elif Binici, Changes to Forecasts : 02/11/2023.