



Blackstone

Batteries-Battery Sys / Switzerland

Better-than-expected results; battery R&D progress continues unabated

Earnings/sales releases - 18/05/2021

2020 financial results came in ahead of our expectations, despite the pandemic resulting in a delayed kick-start at various divisions. However, the bigger takeaway has been the group's sustained progress on the battery R&D front – which began in H2 20 and has continued to date. With commercial battery cell manufacturing targeted in 2021 and various customers (across industries) expressing interest in buying, Blackstone remains on track to realise its long-term strategic ambitions and, hence, our stock recommendation is being maintained.

Fact

Despite the pandemic-induced disruption at (key) under-development assets/divisions, Blackstone Resources ended 2020 on a promising note – the results were better than our expectations. While total sales were yet again negligible (CHF9.5k), operating loss for the year came in at CHF4.4m vs. our estimate of CHF5m. Operating loss was attributable to the sizeable increase across key cost overheads such as personnel, general & administrative, and depreciation & amortisation increasing 71%, 109% and 83%, respectively – reflecting that business plans remained on track.

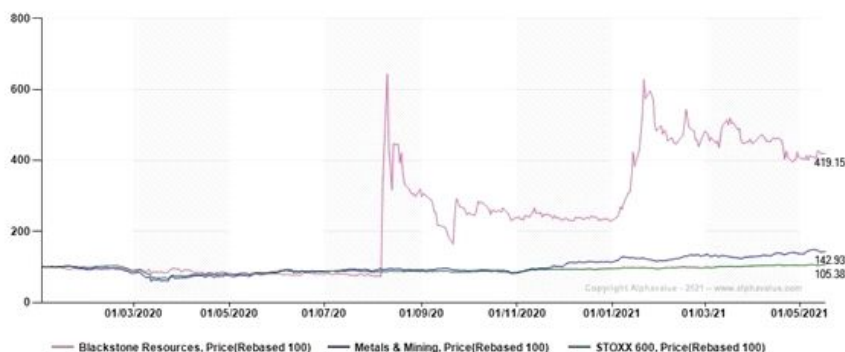
However, net attributable profit came in at CHF17.7m (vs. our estimate of CHF16.4m) – up 210% yoy. The bottom line was a major beneficiary of CHF22m of profit from the sale of mining assets and helped dwarf the impact of much-higher interest (+69%) and other non-operating expenses.

As a result, Blackstone's end 2020 book value of shareholders equity (ex. minorities) increased to CHF39m – up 51% vs. end 2019. Moreover, net debt was down 54% (vs. end 2019) to CHF13.2m.

Besides the financial performance, the key highlight of 2020 was the progress in the Battery R&D division (discussed below), which helped Blackstone inch closer towards its longer-term strategic ambitions.

Analysis

Blackstone's enviable outperformance



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Buy Upside: 206%

Target Price (6 months)	CHF 12.1
Share Price	CHF 3.94
Market Cap. CHFM	168
Price Momentum	GOOD
Extremes 12Months	0.69 ▶ 6.05
Sustainability score	4.2 /10
Credit Risk	CC →
Bloomberg	BLS SW Equity
Reuters	BLS.S


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PERF	1w	1m	3m	12m
Blackstone Resources	2.60%	-9.63%	-22.7%	405%
Capital Goods	-1.33%	-3.73%	5.37%	65.1%
STOXX 600	-0.70%	-0.05%	6.29%	34.7%

Last updated: 18/05/2021	12/20A	12/21E	12/22E	12/23E
Adjusted P/E (x)	3.60	-20.0	48.9	5.23
Dividend yield (%)	0.00	0.00	0.00	0.00
EV/EBITDA(R) (x)	-38.9	22.0	5.76	2.75
Adjusted EPS (CHF)	0.42	-0.20	0.08	0.75
Growth in EPS (%)	225	n/a	n/a	836
Dividend (CHF)	0.00	0.00	0.00	0.00
Sales (CHFm)	0.01	141	309	473
EBITDA/R margin (%)	ns	8.55	13.8	18.6
Attributable net profit (CHFm)	17.7	-8.39	3.44	32.2
ROE (after tax) (%)	55.5	-14.4	3.29	21.1
Gearing (%)	53.9	30.7	23.4	14.5

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

Starting in 2020, with COVID-19 beginning to impact all parts of the world, the macro situation was grim and there was a looming risk of a global crisis. While the

world economy is still not out of the woods, the massive government stimulus measures have benefited some sectors to a great extent – such as Metals & Mining, wherein despite their deep-cyclical nature, the markets have emphasised more on their ‘potential’ green virtues. In fact, investment cases like Blackstone Resources – betting ambitiously on (EV) battery R&D and also have the potential cushion of internal supplies of key metals (such cobalt, lithium and nickel) – have been liked by the markets.

Unsurprisingly, Blackstone's share price has gone through the roof. This material revival of fortunes has been a function of a series of battery technology breakthroughs, R&D partnerships, commercial discussions with potential customers and various funding arrangements being finalised in the past one year. Below is a point-wise summary of the group's major milestones:

1/ July 2020: the world's first battery cells with thick printed electrodes were successfully manufactured and tested; these printed batteries were claimed to have higher energy density vs. traditional lithium-ion batteries; manufacturing was undertaken using environment-friendly electrodes vs. chemical electrodes – which have the risk of high inflammation; and large-scale assembly line plans are being implemented to produce the above batteries / cells at high speed.

2/ September 2020: it announced key milestones for its proprietary 3D-printing technology to print lithium ion solid-state batteries; management claimed that this process entails significantly lower costs, introduces high production flexibility + increases energy density by c.20%.

3/ October 2020: GEM Global made an equity commitment of CHF30m to implement the commercial steps for battery technology and related metals.

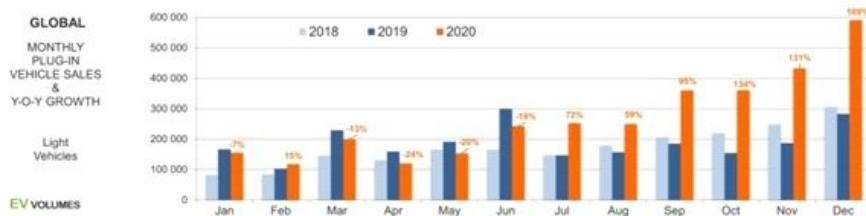
4/ December 2020: Swiss Innovation Agency, i.e. Innosuisse, approved Blackstone's application for a grant to provide 50% funding for a CHF1.3m project.

5/ January 2021: the battery project secured EU grants, which was followed by a CHF20m convertible loan facility valid for three years.

6/ February 2021: during Blackstone's Battery Day, management presented its new 3D printed lithium-ion large battery cell produced using the firm's proprietary technology and unveiled the plan to produce these cells during summer 2021; it was stated the firm's LFP (lithium iron phosphate) technology rendered 20-25% more energy density vs. current lithium-ion technology; interestingly, the group has already begun commercial conversations with potential customers, which include some of Europe's leading car brands – an important validation of Blackstone's technology solutions; also, Blackstone unveiled its ambition to supply 10k battery cells by spring 2021 for the EU's targeted electrification of ships.

7/ April 2021: unveiled first successfully printed and tested working solid-state battery cell, thereby resulting in completion of R&D for 3D screen-printing process and paving the way for mass production of solid-state batteries using various cathode materials; now Blackstone strives to develop a manufacturing technology that produces one battery cell per second and a production cost of <\$60/kWh.

As a consequence of the above-discussed developments, there is growing market interest in Blackstone's investment proposition. Luckily, these breakthroughs are materialising at a time when global EV market momentum is in top gear (illustrated in the below image).



Source: www.ev-volumes.com

Remember, despite COVID-19 wreaking havoc for global auto markets, the EV markets have been catalysed by massive government and/or regulatory push, with the growth baton being led by Europe (+137%), followed by China (+12%) and the US (+4%). These are promising signals and should further incentivise R&D in the battery space – especially given the (potential for) sky-rocketing prices of key ‘green’ metals and, hence, the sustained need for innovation(s) to reduce dependence on expensive materials.

■ Impact

Besides the incorporation of 2020 results, we have added a new forecast year, i.e. 2023 to our financial model. With the near term still focused on battery R&D and the development of the respective divisions, the earnings/cash flow metrics are likely to remain restrained. However, the bulk of the value lies in the long term – which also reflects in a material NAV upside. Our stock recommendation is maintained.

Sales by Geography

Valuation Summary

Consolidated P&L Accounts

		12/20A	12/21E	12/22E
Sales	CHFM	0.01	141	309
Change in sales	%	ns	ns	118
Change in staff costs	%	379	66.7	18.3
EBITDA	CHFM	-3.06	11.1	41.6
EBITDA(R) margin	%	ns	7.84	13.5
Depreciation	CHFM	-1.38	-20.6	-36.2
Underlying operating profit	CHFM	-4.43	-9.52	5.39
Operating profit (EBIT)	CHFM	17.7	-9.52	5.39
Net financial expense	CHFM	-0.64	-0.27	-0.69
of which related to pensions	CHFM		0.00	0.00
Exceptional items & other	CHFM	0.00	0.00	0.00
Corporate tax	CHFM	0.16	1.96	0.94
Equity associates	CHFM	0.00	0.00	0.00
Minority interests	CHFM	0.51	-0.57	-2.21
Adjusted attributable net profit	CHFM	17.7	-8.39	3.44
NOPAT	CHFM	12.4	-6.66	3.78

Cashflow Statement

EBITDA	CHFM	-3.06	11.1	41.6
Change in WCR	CHFM	-0.23	-6.89	-11.3
Actual div. received from equity holdi...	CHFM	0.00	0.00	0.00
Paid taxes	CHFM	-0.09	1.96	0.94
Exceptional items	CHFM	0.00	0.00	0.00
Other operating cash flows	CHFM	0.07	0.00	0.00
Total operating cash flows	CHFM	-3.30	6.16	31.2
Capital expenditure	CHFM	0.00	-73.4	-73.7
Total investment flows	CHFM	0.19	-27.0	-23.4
Net interest expense	CHFM	-0.64	-0.27	-0.69
Dividends (parent company)	CHFM	0.00	0.00	0.00
Dividends to minorities interests	CHFM	0.00	0.00	0.00
New shareholders' equity	CHFM	-0.08	0.00	0.00
Total financial flows	CHFM	2.07	24.5	-5.96
Change in cash position	CHFM	-1.11	3.75	1.85
Free cash flow (pre div.)	CHFM	-3.94	-67.5	-43.1

Per Share Data

No. of shares net of treas. stock (year...	Mio	42.7	42.7	42.7
Number of diluted shares (average)	Mio	42.7	42.7	42.7
Benchmark EPS	CHF	0.42	-0.20	0.08
Restated NAV per share	CHF			
Net dividend per share	CHF	0.00	0.00	0.00

Benchmarks	Value	Weight	Largest comparables
DCF	CHF 4.35	40%	● Eramet
NAV/SOTP per share	CHF 24.4	40%	■ Boliden
P/E	CHF 1.97	5%	■ Johnson Matthey
EV/Ebitda	CHF 2.42	5%	■ Umicore
P/Book	CHF 7.35	5%	
Dividend Yield	CHF 0.00	5%	
TARGET PRICE	CHF 12.1	100%	

NAV/SOTP Calculation

Balance Sheet

		12/20A	12/21E	12/22E
Goodwill	CHFM	88.5	88.5	88.5
Total intangible	CHFM	88.5	88.5	88.5
Tangible fixed assets	CHFM	10.1	62.8	100
Financial fixed assets	CHFM	0.00	0.00	0.00
WCR	CHFM	-1.60	5.29	16.6
Other assets	CHFM	3.07	3.07	3.07
Total assets (net of short term liab.)	CHFM	102	162	211
Ordinary shareholders' equity	CHFM	39.0	77.5	131
Quasi Equity & Preferred	CHFM			
Minority interests	CHFM	44.0	44.6	46.8
Provisions for pensions	CHFM	0.13	-0.43	-0.63
Other provisions for risks and liabilities	CHFM	0.00	0.00	0.00
Total provisions for risks and liabilities	CHFM	0.13	-0.43	-0.63
Tax liabilities	CHFM	5.90	5.90	5.90
Other liabilities	CHFM			
Net debt (cash)	CHFM	13.3	34.3	27.2
Total liab. and shareholders' equity	CHFM	102	162	211

Capital Employed

Capital employed after depreciation	CHFM	96.9	157	205
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Profits & Risks Ratios

ROE (after tax)	%	55.5	-14.4	3.29
ROCE	%	12.8	-4.25	1.84
Gearing (at book value)	%	53.9	30.7	23.4
Adj. Net debt/EBITDA(R)	x	-4.34	3.10	0.65
Interest cover (x)	x	-6.89	-36.1	7.88

Valuation Ratios

Reference P/E (benchmark)	x	3.60	-20.0	48.9
Free cash flow yield	%	-6.17	-40.1	-25.6
P/Book	x	1.64	2.17	1.28
Dividend yield	%	0.00	0.00	0.00

EV Calculation

Market cap	CHFM	63.8	168	168
+ Provisions	CHFM	0.13	-0.43	-0.63
+ Unrecognised actuarial losses/(gains)	CHFM	0.00	0.00	0.00
+ Net debt at year end	CHFM	13.3	34.3	27.2
+ Leases debt equivalent	CHFM	0.00	0.00	0.00
- Financial fixed assets (fair value)	CHFM	2.21	2.21	2.21
+ Minority interests (fair value)	CHFM	44.0	44.6	46.8
= EV	CHFM	119	244	239
EV/EBITDA(R)	x	-38.9	22.0	5.76
EV/Sales	x	ns	1.73	0.78

Analyst : Varun Sikka, Changes to Forecasts : 18/05/2021.