



# Blackstone

Batteries-Battery Sys / Switzerland

## Battery progress again overshadows operating results

Earnings/sales releases - 01/10/2021

During the H1 21 operating results release, the developments in the battery business again stole the limelight. With tangible progress in battery on various counts – such as financing, commercialisation and expansion of manufacturing, and the establishment of a more-specialised leadership team, the firm seems all set to deliver on its aggressive ambitions. While commercialisation/kickstart at the non-battery businesses is still awaited, the progress in the battery business is expected to be a bigger sentiment driver – given that it accounts for the majority of the firm's gross assets.

### Fact

Blackstone Resources reported H1 21 total comprehensive income of CHF3.6m – largely driven by currency translation benefits. However, sales from the core operations were 'nil' yet again – as the respective businesses still haven't begun commercial operations. Although the firm did recognise CHF445k of grant income associated with its battery R&D operations. 'Reported' operating loss came in at CHF2.3m vs. CHF1.9m in H1 20. Moreover, net attributable loss was CHF2.4m vs. CHF20m profit in H1 20 – with the latter being single-handedly driven by CHF22m of gain on asset disposals.

Blackstone ended H1 21 with a book value of equity (ex. minorities) of CHF38.4m – down 1.4% vs. end H1 20. Moreover, net debt increased 20% (vs. end H1 20) to CHF15.8m.

Despite no progress in terms of financial results, the group managed to achieve newer milestones (discussed below) with respect to its lynchpin battery R&D business (also the majority of gross assets).

### Analysis

Since our last note on Blackstone's 2020 results, the firm has made the following corporate announcements, with most of them focused on / pertaining to the battery business:

- 27 May 2021: increased ownership of lithium concession assets by 900 hectares to 8,900 hectares;
- 21 June 2021: unveiled plans to list Blackstone Technology GmbH (fully-owned subsidiary) in the US to raise additional capital and diversify investor base; more details are still awaited;
- 23 June 2021: strengthened its team with the appointment of Dr David Flaschenträger as the new CTO and Project and Product Manager of Blackstone Technology; he is an experienced engineer, having previously worked at Quantron AG, E-Force One AG and BMZ GmbH; also, during his time at the Fraunhofer Institute LBF, he received his PhD in Engineering from the Technical University of Darmstadt; remember, Blackstone has a research cooperation agreement with the Fraunhofer Institute;
- 1 July 2021: announced plans for a ten-fold increase in lithium-ion battery capacity to 500MWh by 2022; moreover, the firm has signed/discussing a letter of intent (combined value of €184m) with potential clients across



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### Buy Upside: 257%

Target Price (6 months)	CHF 11.9
Share Price	CHF 3.34
Market Cap. CHFM	143
Price Momentum	<b>NEGATIVE</b>
Extremes 12Months	2.16 ▶ 5.90
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	0.60%	-6.18%	-10.7%	44.0%
Capital Goods	-4.97%	-5.82%	-0.16%	25.8%
STOXX 600	-2.71%	-3.41%	0.44%	26.0%

Last updated: 18/05/2021	12/20A	12/21E	12/22E	12/23E
Adjusted P/E (x)	3.60	-17.0	41.5	4.43
Dividend yield (%)	0.00	0.00	0.00	0.00
EV/EBITDA(R) (x)	-38.9	19.7	5.14	2.45
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

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marine, motorcycle and commercial vehicle manufacturing;

- 5 July 2021: Christoph von Aesch was appointed as CFO; before joining Blackstone, he held the role as Group Assurance Officer at gategroup, the world's leading airline caterer; prior to that, he was CFO of Capri Sun and held several senior leadership roles at Wild Flavors, Orascom Development and KPMG in Switzerland and Australia;
- 21 July 2021: received the permit from Döbeln city authorities to begin production of 3D-printed lithium-ion battery cells; production start was targeted for September 2021; simultaneously, Blackstone applied for funding from Sächsische Aufbaubank;
- 3 August 2021: signed a supply cooperation agreement with IBU-tec advanced materials AG for the cathode material LFP (lithium iron phosphate), given its pivotal importance in battery-making;
- 5 August 2021: secured €40m of debt funding for the expansion of battery manufacturing;
- 1 September 2021: Serhat Yilmaz was appointed as CMO, also taking care of investor relations; and
- 23 September 2021: decided to commission a new development laboratory for battery cell research at its Döbeln production facility.

As a summary of the above-mentioned events, it is fair to say the Blackstone remains committed to its battery R&D ambitions and, gradually, it has managed to take into confidence various stakeholders, including government(-backed) agencies – which also opens up the prospect of easy access to grants/financing. Moreover, with various appointments at the leadership level, there seems to be an apt focus on battery's commercialisation plans.

### **Green transition (metals) – more than just euphoria**

In recent weeks/months, commodity markets have become increasingly uncertain due to various factors – ranging from 'excessive' monetary easing reversal fears, China's macro uncertainties – especially post the Evergrande debacle, Delta variant concerns, cost escalation uncertainties and/or geo-political issues. As a result, over the last month, AV's metals & mining universe has lost 6.1% in value vs. a 2.7% correction for the broader coverage. Moreover, this slide has been led by the sector heavyweights such as Anglo American (-15%), BHP Group (-11%) and Rio Tinto (-9%), despite their recent shareholder reward extravagance. On the other hand, Glencore has been very resilient (+10%). While the trader-miner's ability to benefit in volatile markets is an important differentiator, another major supporting factor could be the firm's enviable dominance in key green transition metals, i.e. copper, cobalt and nickel. Remember, with a clean environment remaining a top-priority for most economies – despite brewing risks/challenges, green metal and/or battery-related stocks are likely to remain the market's choice to play macro recovery-related stories. Hence, even if Blackstone is behind its plans for the non-battery businesses, its progress in the battery business is likely to remain the biggest KPI for investors.

### **■ Impact**

Our model is under review – taking on board the firm's revised business plan. The material upside on the stock should be maintained, and this optimism is backed by the good progress being achieved in battery – also validated by the support in various forms via various government(-backed) agencies.

## 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
<b>EBITDA(R) margin</b>	%	<b>ns</b>	<b>7.84</b>	<b>13.5</b>
Depreciation	CHFM	-1.38	-20.6	-36.2
Underlying operating profit	CHFM	-4.43	-9.52	5.39
<b>Operating profit (EBIT)</b>	<b>CHFM</b>	<b>17.7</b>	<b>-9.52</b>	<b>5.39</b>
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
<b>Adjusted attributable net profit</b>	<b>CHFM</b>	<b>17.7</b>	<b>-8.39</b>	<b>3.44</b>
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
<b>Free cash flow (pre div.)</b>	<b>CHFM</b>	<b>-3.94</b>	<b>-67.5</b>	<b>-43.1</b>

### 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
<b>Benchmark EPS</b>	<b>CHF</b>	<b>0.42</b>	<b>-0.20</b>	<b>0.08</b>
Restated NAV per share	CHF			
<b>Net dividend per share</b>	<b>CHF</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

Benchmarks	Value	Weight	Largest comparables
DCF	CHF 4.04	40%	<ul style="list-style-type: none"> <li>● Eramet</li> <li>● Boliden</li> <li>● Johnson Matthey</li> <li>● Umicore</li> </ul>
NAV/SOTP per share	CHF 24.3	40%	
P/E	CHF 1.67	5%	
EV/Ebitda	CHF 2.81	5%	
P/Book	CHF 6.68	5%	
Dividend Yield	CHF 0.00	5%	
TARGET PRICE	CHF 11.9	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
<b>Ordinary shareholders' equity</b>	<b>CHFM</b>	<b>39.0</b>	<b>77.5</b>	<b>131</b>
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			
<b>Net debt (cash)</b>	<b>CHFM</b>	<b>13.3</b>	<b>34.3</b>	<b>27.2</b>
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

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

### Valuation Ratios

<b>Reference P/E (benchmark)</b>	<b>x</b>	<b>3.60</b>	<b>-17.0</b>	<b>41.5</b>
Free cash flow yield	%	-6.17	-47.3	-30.3
P/Book	x	1.64	1.84	1.08
<b>Dividend yield</b>	%	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

### EV Calculation

Market cap	CHFM	63.8	143	143
+ 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	219	214
<b>EV/EBITDA(R)</b>	<b>x</b>	<b>-38.9</b>	<b>19.7</b>	<b>5.14</b>
EV/Sales	x	ns	1.55	0.69

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