ALIGN RESEARCH

EQTEC – Update

24th March 2020

Commercial progress advancing and many further opportunities in the pipeline in what is now a "future proof" sector

CONVICTION BUY
Price target – 0.78p

EQTEC provides engineering and design services and sells its EQTEC Advanced Gasification Technology to waste-to-energy operators and enterprise partners. The company works together with multiple parties involved in W2E projects including the developers, waste owners, building contractors and funders with a view to ultimately providing its advanced gasification technology, associated engineering & design services and O&M services.

Working with multiple partners to turn waste into energy

EQTEC's business model is focused upon sourcing and providing assistance to clients in developing waste elimination projects, typically projects that have a local supply of waste which can be disposed of and turned into energy. The company works together with multiple partners involved in projects, including developers, waste owners, EPC contractors and financiers, with a view to ultimately providing its advanced gasification technology and associated engineering and design services.

Focussed on three key verticals

Last year, EQTEC set out a strategy to focus its efforts on the following three verticals of the waste-to-energy sector: Recovery of Clean Energy from Biomass; Elimination of Waste Streams in Agri-food and Industrial Sectors; and Elimination of Waste Streams – Municipal Solid Waste (MSW) and Refuse Derived Fuel (RDF).

Rapid increase in project pipeline

Over the past year or so EQTEC has announced a number of developments and contract wins across its three key verticals. These include; the financial close of the North Fork biomass project in California; an agreement for the development of a proposed 1.18 MW net biomass gasification power plant project in Gratens, France; and an MoU for the engineering design and installation of the first advanced gasification plant in Greece.

Peer based valuation suggests upside of more than 400%

EQTEC now has a substantial pipeline of projects which should begin and be completed over the coming two/three years. Using a peer derived EV/EBITDA multiple we set a target price of 0.78p per share, implying 403% upside from the current price.

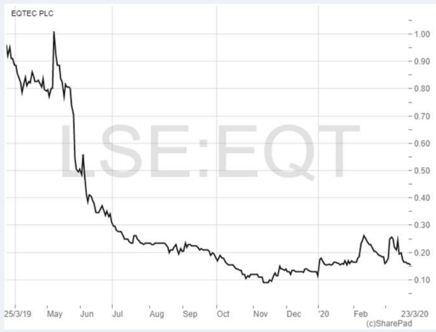
This investment may not be suitable for your personal circumstances. If you are in any doubt as to its suitability you should seek professional advice. This note does not constitute advice and your capital is at risk. This is a marketing communication and cannot be considered independent research.

EQTEC™

Key data

EPIC	EQT
Share price	0.155p
52 weeks high/low	1.075p/0.09p
Listing	AIM
Shares in issue	3,939,376,247
Market Cap	£6.11m
Sector	Alternative Energy

12-month share price chart



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Operations

EQTEC's main operating subsidiary is Eqtec Iberia SLU, a company which provides engineering & design services, operations and maintenance services, and sells its flagship EQTEC Advanced Gasification Technology to waste-to-energy operators and enterprise partners. Gasification is a process that is achieved by reacting materials such as organic waste and biomass at high temperatures without combustion, with a controlled amount of oxygen, producing a synthesis gas (or syngas) which in turn can be conditioned and used to power a generator and produce heat and electricity.

EQTEC's own advanced gasification technology, developed by Eqtec Iberia over the past two decades, is based on a bubbling fluidised bed reactor for the gasification of a wide range of combustible materials. **Unlike many operators in the gasification market, the company has already proven the economic viability of its technology, having successfully delivered it to clients and seen many years of it operating in a commercial plant.** The company's flagship project is the Movialsa plant in Spain, delivered by Eqtec Iberia for client Mostos, Vinos y Alcoholes SA (Movialsa), a Spanish agriculture company, in 2011. **The three engines have now run for more than 111,000 hours between them at the targeted output without major issue.**

EQTEC's technology and services lie in a sweet spot, providing a solution to dealing with problems associated with two of the world's most pressing issues - rising levels of waste (and how to manage it) and growing demand for energy. **To give some high-level figures, the World Bank estimates that population growth and urbanisation will result in annual solid waste generation increasing by 70% from 2016 levels to 3.4 billion tonnes in 2050.** On the energy side, BloombergNEF's *New Energy Outlook 2018* report forecasts that global electricity demand will reach around 38,700 terawatt-hours by 2050, up from 25,000 terawatt-hours in 2017. **To highlight the value of opportunities in the sector, a report published in October 2018 by Research Nester forecast that the global waste-to-energy will grow at a CAGR of 5.7% to 2024 to reach a value of $42.5 billion.**

Business model & strategy

EQTEC's business model is focused upon sourcing and providing assistance to clients in developing waste elimination projects, typically projects that have a local supply of waste which can be disposed of and turned into energy. The company works together with multiple partners involved in projects, including developers, waste owners, EPC contractors and financiers, with a view to ultimately providing its advanced gasification technology and associated engineering and design services. **Additionally, operation & maintenance (O&M) services generate recurring revenues over the life of the projects once the initial services have been delivered.**

To summarise, income streams include: sales of equipment and services directly to plant owners; sales of services & equipment to plant owners within an EPC contractor offering; regular annual income from O&M services to plant owners; and fee income from technology licensing in certain markets. Additionally, EQTEC will consider acquiring ownership positions in specific projects should they be compelling enough. This route will see income in the form of gate fees, the sale of electricity and heat, dividends, SPV management services and financing arrangement fees. EQTEC also seeks to provide O&M services to established operating co-generation plants generating recurring revenues over the life of the projects.

Three key verticals

Last year, EQTEC set out a strategy to focus its efforts on the following three verticals of the waste-to-energy sector.

Recovery of Clean Energy from Biomass

EQTEC's target project size in the biomass sector will be 2.5-5 MW, with key regions being the US and Europe. In particular, the Californian market offers many opportunities, especially in the area of managing waste wood, which can pose a serious threat of wildfire. The most recent drought in California caused the die off in excess of 100 million trees and wildfires are a common problem in the state. However, fewer than half a dozen small scale biomass plants exist. **It is estimated that more than 100 plants would be needed just in the Sierra Nevada for effective management.**

A number of political and economic drivers are influencing the Californian market, with EQTEC's gasification technology having already been chosen by Phoenix Energy (see more below) for two power plants in the state, with the design work for the first power plant having already been completed. Notably, California Senate Bill 901, enacted in 2018, authorises $200 million per year for five years from the state's Greenhouse Gas Reduction Fund for wildfire prevention, primarily in the form of hazardous fuel reduction projects.

Elimination of Waste Streams in Agri-food and Industrial Sectors

Here the focus is upon the recovery of energy from agriculture and other sectors, with the target project size being 2-10 MW. The Mediterranean has been identified as a key geography for this part of the strategy, and in particular the elimination of waste generated by the olive oil industry, with olive oil farming estimated to cover over five million hectares in the EU Member States. EQTEC's expertise in this area has already been demonstrated at the Movialsa plant in Spain, with additional opportunities identified.

The olive oil industry generates large quantities of by-products, with the main one being olive mill pomace (OMP), potentially harmful for the environment. It is estimated that around five million metric tons of OMP is produced every year. However, once the remaining oil is extracted, what is left is a clean biomass fuel with a high calorific value which can be used in the generation of renewable energy. To advance progression in this vertical, the company has recently hired a new business development executive in Spain. Another area of focus will be waste produced during the pulping process in the paper mill industry throughout Europe.

Elimination of Waste Streams – Municipal Solid Waste (MSW) and Refuse Derived Fuel (RDF)

Here the focus is upon projects in the 5-25MW range, particularly in the UK and Ireland. The fuel input in these projects comes from Refuse Derived Fuel (RDF), produced from various types of wastes such as Municipal Solid Waste (MSW), by shredding and dehydrating it after all recyclable elements have been removed.

The UK markets look attractive for the company, with it estimating that c.3.5 million tonnes of RDF are exported annually by the country due to lack of elimination and processing capacity. **To address this market, EQTEC has entered into collaboration agreements with two of the largest energy infrastructure construction groups in the world, China Energy Engineering Corporation Limited International Company (Energy China) and COBRA Instalaciones Y Servicios (COBRA), having passed their technical due diligence in 2017 and 2018 respectively.**

Recent Operational Progress

Over the past year or so EQTEC has announced a number of developments and contract wins across its three key verticals as follows, along with additional operations and maintenance work.

Biomass

Phoenix Biomass Energy

In January 2019 EQTEC announced the signing of its first equipment purchase contract for the company's first plant with US power company, Phoenix Biomass Energy. **This follows on from an MOU with Phoenix, signed in September 2018, to supply EGT for two power plants in California, expected to be valued in the region of €10 million.**

Phoenix is a US based private label power company that builds, owns and operates on-site biomass gasification plants in partnership with businesses in the agricultural and forestry industries. It helps partners become their own energy provider, selling energy at retail rates, combining proven technologies to provide themselves, their partners and their customers with profitable on-site power. Phoenix has carried out extensive technical due diligence on EQTEC's Advanced Gasification Technology and has confirmed that it is well positioned to address the requirements of their market. Phoenix was the first US based customer to use EQTEC's technology, with the expectation being that this would act as a reference case and lead to further opportunities in the country.

Further, in May last year the two firms signed a Framework Agreement under which they are looking to jointly develop biomass gasification power projects in the US, generally between 2 to 3MW in size, with an estimated project value between $15 and US$20 million. Once the parties have agreed to proceed with a project, EQTEC will provide its technology, together with technical design and engineering for the power plants and the parties will work together to secure the necessary funding to develop such projects.

North Fork – First plant to act as a reference case

Investors were first made aware of EQTEC's interest in the North Fork project in June 2019 when the company announced the signing of its first agreement, regarding the joint development of a biomass gasification power project in California, with Phoenix. The agreement saw EQTEC agree to acquire 19.99% ownership of North Fork Community Power (NFCP), a special purpose vehicle formed to build and operate a 2MW biomass project in North Fork, California. NFCP holds the lease for the site as well as the relevant permits, power purchase agreement and various other commercial agreements.

At the beginning of 2020, EQTEC confirmed that the project had, after a few months of delays, reached financial close on New Year's Eve. As a result of the contract signing, an Equipment Sale and Services Contract between EQTEC and NFCP was executed, under which EQTEC will invoice €2.2 million for the sale of equipment and the supply of engineering and design services. This comprised of a down-payment of €880,000 on execution, together with certain further agreed milestone payments leading up to commissioning. **EQTEC has already invoiced NFCP for the €880,000 down-payment and has received payment.**

In addition, EQTEC's agreement to acquire a 19.99% interest in NFCP on financial close of the project has also now been completed. Consideration for the investment was satisfied by the supply of certain items of existing equipment valued at $2.5 million, held at EQTEC's Newry site in Northern Ireland, with no cash consideration being paid.

On commissioning, which is expected before the end of Q1 2021, North Fork is estimated to have a valuation of approximately $20 million and be capable of generating annual revenues of approximately $4 million. North Fork will use sustainably harvested materials from fuel reduction activities on forest lands. Its use will support fuels reduction work by creating a profitable market for them, while also creating jobs, fostering industry, and providing renewable energy. A project kick-off meeting in the US with the EPC, gas engine supplier Jenbacher and Phoenix took place in early Feb.

We believe that the funding of North Fork should act as an important milestone to attract funding for the rest of the project pipeline that EQTEC has with Phoenix, with four projects currently under exclusivity. Boding well for the additional projects, we note comments from Gregory Stangl, CEO of Phoenix Energy, ***"Our team can now focus on the next two projects in our pipeline. The second will be self-funded and we have already initiated conversations with our funders for our third Project."*** EQTEC and Phoenix are currently in advanced discussions to develop and strengthen the collaboration, both from an operational and business development perspective.

Biomass project in France

On 13th November 2019, EQTEC announced that EQTEC Iberia had entered into an agreement for the development of a proposed 1.18 MW net biomass gasification power plant project in Gratens, France, the company's first in the country. The agreement is between EQTEC Iberia, Biomasse 31 (the existing project special purpose vehicle) and the Barthe family, owners of Biomasse 31. The agreement reflects the key terms required to enable the completion of the necessary project engineering, project management and project documentation needed for final legal documentation.

Under the deal, EQTEC will provide its advanced gasification technology for the project with a fixed cost EPC solution. Iberia will act as project manager and provide technology, equipment and services, including development services. **EQTEC estimates that the value of its proposed technology, equipment and services contract will be c. €5.5 million, with a detailed commercial offer prepared. Biomasse 31 will be responsible for all permitting and licensing which need to be finalised before construction can commence.**

EQTEC Iberia has been granted exclusivity to develop the project up to 31st December 2020, a date which is considered to be the expected long stop deadline necessary to obtain all the required permits to achieve financial close and commence construction, although it can be extended if all parties agree. Iberia expects to incur costs of up to €100,000 before financial close for the provision of the engineering services required to obtain the requisite permitting to reach financial close, which is proposed to be repaid on financial close at a 2 times multiple. All parties will work towards creating the definitive legal documents under which they, and funders introduced by each party, will invest in the SPV in order to achieve project financial close. EQTEC has already met with potential third-party funders and a number of pre-planning meetings have been carried out with the relevant authorities, with a number confirming in writing their support. It is intended that EQTEC will have the option, but not the obligation, to invest equity capital into the SPV.

Agri-food

Equipment sale

On 22nd January 2020, EQTEC announced the sale of certain equipment and spare parts to Movialsa, mainly ancillary parts for the power block of its 6 MW plant in Spain. The equipment was sold for €300,000 in cash, which has now been received.

It was also announced that the Jenbacher engines on the plant have recently surpassed 111,000 aggregated operating hours at full expected operational capacity and that, as part of the equipment sale contract, EQTEC is able to arrange visits to the Movialsa plant to showcase the technology to potential future stakeholders in its projects.

RDF

Billingham Energy Project

In May 2019, EQTEC announced a promising MoU with partner COBRA and Scott Bros. Enterprises. The conditional deal is with a view to jointly developing the proposed up to 25 MW Billingham Energy waste gasification and power plant in Haverton Hill, Billingham, County Durham. The project is expected to process 200,000 metric tons per annum of refuse derived fuel (RDF) from municipal waste.

Under the MoU, which was initially exclusive for six months and extendable, EQTEC will act as lead developer and technology provider for the project and provide its engineering, design and technology expertise. It will work with COBRA to produce the full engineering, procurement and construction (EPC) and O&M services.

EQTEC will also work alongside COBRA to secure the necessary funding for the construction and development of the project through the introduction of third-party equity and debt investors. Financial close is conditional on a number of factors including the completion of due diligence on the project, the necessary funding being secured, and the EPC and O&M contracts having been entered into. The estimated project value is said to be in the range of £150 million to £180 million.

In October 2019, it was announced that the parties agreed to extend the exclusivity period of the MOU until 22nd July 2020. Following a number of meetings to review the progress made on the project with regard to grid connection, planning and feedstock supply, it was deemed that progress has been satisfactory and an extension deemed appropriate in order to further progress discussions with potential funding partners.

This is the first deal agreed with COBRA (a company engaged in the engineering, construction, operation, installation and maintenance of industrial & energy infrastructures), with which EQTEC entered into a strategic alliance in February 2018. This was with a view to identifying and collaborating on waste-to-energy projects that will use the company's gasifier technology. **Making revenues of over €3 billion in 2017, COBRA is an excellent partner to have on board, providing numerous further opportunities for work on projects in the renewable energy sector.**

RDF testing

On 15th January 2020, EQTEC announced that EQTEC Iberia has received approval from LERMAB (the University of Lorraine's research laboratory on wood material) to carry out tests utilising RDF at the Feedstock Research and Demonstration Plant built in collaboration with EQTEC, located at the University of Lorraine in France. In 2014, EQTEC's proprietary advanced gasification technology was selected as the technology for the testing facility, which was built in 2015 having been financed from French and European public funds.

Testing RDF as a feedstock at the plant will provide EQTEC with accurate operational data on the behaviour of project specific types of RDF, which it can then share with prospective partners and other stakeholders. EQTEC believes that the data will help it to widen the number of potential providers of project funding and potentially reduce the timeline to financial close by enabling a commercial understanding of the feedstock at an earlier stage in the project process. The company also anticipates that access to the data will assist in reducing the cost of insurance backed premiums in relation to performance warranties, leading to increased demand for its technology.

Operations and Maintenance

As part of its wider commercial strategy, EQTEC has been seeking to employ its engineering capacity, experience and credentials in co-generation applications to bid for maintenance contracts with clients which have extensive infrastructure. This allows the additional generation of recurring revenues while its waste elimination and energy recovery technologies are being developed and constructed, as well as building credentials in a given market and developing potential new sales leads.

To that end, in October 2019, the company confirmed it had completed its first maintenance contract, with Transports Metropolitans de Barcelona (TMB), the public transport operator in Barcelona. This followed a successful tender for the project earlier in the year. The contract was for the overhaul of the engine cogeneration unit at TMB's Horta Station in Barcelona.

EQTEC secured financing for the project from CAIXA Bank and the works were completed in September 2019, generating revenue of c.€155,000. Following completion, EQTEC retains a preventive maintenance contract until May 2020 for both TMB's Horta Station and a second project, at TMB's Triangle Station. Further similar deals are being sought.

Financials & Recent Trading

EQTEC's most recently reported results covered trading in the six months to 30th June 2019. The main operational highlights, namely the strategy update, Billingham Energy MOU, Phoenix Energy framework agreement and North Fork development, are covered elsewhere in this note.

On the financials side, revenues for the period almost trebled, from €0.55 million in H1 2018 to €1.56 million. However, lower margin work meant that gross profits fell from €113,514 to €87,149. The operating loss for the period was marginally lower at €1.11 million, with a 20% fall in administrative expenses offset by higher foreign exchange losses and a reduction in other operating income. A 26% rise in finance costs to €0.86 million took the net loss from continuing operations up by 4% to €1.97 million.

Balance sheet restructuring

Perhaps the most significant financial event of the first half took place in June when EQTEC undertook a balance sheet restructuring, completing a debt for equity swap and raising new equity funds.

Firstly, the equity placing saw £750,000 (before expenses) raised for general working capital by issuing 227,272,727 new shares at 0.33p each. Investors included existing shareholders Altair and Riverfort. Participants were also granted one warrant to subscribe for one new share at an exercise price of 0.495p, a 50% premium to the placing price, exercisable for nine months from admission.

Secondly, the debt restructuring. To summarise, EQTEC redeemed £2,026,118 of the outstanding principal owed under its facility with Altair Group and paid an early redemption fee of £101,306, via the issuance of 644,673,909 new shares. The remaining unredeemed amount of £795,000 under the facility will be governed by an amended and restated secured loan facility, with £1,083,882 remaining available for drawdown. **It is important to note that Altair view the investment as core and are not sellers.**

Additionally, lender Riverfort converted $800,000 of its debt into 191,515,152 new EQTEC shares at the placing price along with a debt conversion fee of £31,600 satisfied by the issue of 9,575,757 new shares. Following conversion, $1,582,993 remains outstanding under the Riverfort Facility.

Following the above events, c.£2 million remains outstanding under the remaining facilities with Altair and Riverfort. These will have a revised annual interest rate of 12.5% and all amounts outstanding are to be repaid as a single payment of principal and accrued interest on 31st July 2020, together with a cash redemption fee of 8%. **Both parties have been given the right, at their sole discretion, to convert the outstanding principal and interest in part or in full, at any time up to 31st July 2020 into new EQTEC shares at a 100% premium to the placing price (0.66p).**

Following implementation of the above, the balance sheet showed €2.58 million of borrowings as at 30th June 2019. Cash and proceeds receivable from the equity issue stood at €1.03 million, for a net debt position of €1.55 million.

December equity raise

In early December last year, the balance sheet was further strengthened after EQTEC completed a £958,500 equity subscription at a price of 0.125p per share. Subscribers were also issued with one warrant for every two subscription shares, exercisable at 0.25p for a period of 24 months from the date of admission. As part of the raise, Altair Group subscribed for shares amounting to £335,000, taking its stake to 28.87% of the enlarged share capital. The net proceeds will be used to further the continued development of the near-term pipeline and for working capital.

Recent operational progress

EQTEC's most recent extensive operations update, released on 21st January 2020, provided an update on progress made in Q4 last year and so far in Q1**. Aside from the developments discussed elsewhere in this note, the company confirmed that it is advancing discussions with regard to a number of ongoing business development initiatives**. These include a potential entry into the Greek market via a strategic partnership for EPC, O&M and business development and exclusivity with a developer who has an existing pipeline in the agricultural waste sector (see below). **Elsewhere, EQTEC is in discussions for project partnerships with potential investors in the US; collaborations with developers in the UK and Ireland in relation to RDF, anaerobic digestion and waste gasification projects; and collaborations with a large owner and operator of biomass energy, district heating and energy from waste infrastructure, to develop a portfolio of projects together.**

Following the update, on 24th February it was announced that the company has been awarded a contract for the upgrade of an existing syngas research and development facility at the University of Extremadura in Badajoz, Spain. EQTEC is responsible for purchasing, installing, commissioning and startup of the Fischer-Tropsch unit, for which it has secured short-term project level financing from CAIXA Bank in Spain. The installation of the unit, along with sign off from the University, is anticipated to be completed in Q3 2020.

On 3rd March 2020, EQTEC announced the signing of an MoU covering the proposed co-operation for the engineering design and installation of the first advanced gasification plant in Greece. The feedstock for the plant will be densified straw, corn and cotton stalk residues, which can be sourced locally from farmers in the region. Commissioning is expected to take place during Q1 2021.

The MoU is with German EPC company ewerGy (with its Greek local partner ECO Hellas), together with Greece based promoter and project developer Agrigas Energy, which will own and operate the fully permitted 0.5MWe gasification installation in Larissa, in central Greece. It is intended that EQTEC will provide its gasification technology to the plant as nominated subcontractor to ewerGy. Subject to the performance of the initial plant, the parties have also committed to the development of a second 1MWe plant owned by an affiliated party of Agrigas in another location in Greece, which is currently in the planning approval process.

EQTEC will shortly provide formal quotes for the full scope of its works to ewerGy. Once the budgets have been agreed, EQTEC and ewerGy will proceed to enter into a binding agreement(s) in respect of the initial plant, which is expected to be finalised in the coming weeks. The statement added that EQTEC, ewerGy and ECO Hellas have full confidence that the successful closing of this first project will be followed by more projects currently in the pipeline of ewerGy and ECO Hellas.

Further, on 16th March EQTEC revealed the signing of a Collaboration Framework Agreement with ewerGy for the development of a portfolio of projects in Greece and the Balkan Region. Under the initial 60 month agreement, the two parties will focus their joint efforts to develop a selected project portfolio in the region and to use EQTEC's Advanced Gasification Technology in projects which will include electricity generation, heat supply and/or CCHP (combined cooling heating and power), as well as syngas to chemicals.

ewerGy will act as an ongoing business developer for EQTEC in the region and, in Greece specifically, will also operate as the EPC contractor and O&M partner. EQTEC meanwhile will provide engineering and technical design services, technology and project development support. The parties have identified 11 potential projects in the pipeline: two which are under development, of 0.5MWe and 1MWe respectively, with the remaining projects under due diligence. All of the projects have the required permitting, economic feasibility studies and secured biomass feedstock, supplied by the local communities, for proposed development.

Management changes

In September, CEO Ian Price stepped down with immediate effect to be replaced by David Palumbo. David Palumbo joined the EQTEC board the previous month after being appointed as Commercial Director on 28th June 2019. He has been in involved in an advisory capacity with EQTEC since 2014 and was responsible for introducing a number of significant stakeholders to the company in that period.

David is an experienced entrepreneur with 20 years' experience in private equity, business development and asset management. Since 2006, he has founded and co-founded a number of companies in various industries such as renewable energy, wealth management, property and real estate. He is the Founding and Managing Partner of Origen Capital LLP a private investment firm representing family offices and private consortia in Europe, CIS and Latin America which introduced Altair Group Investment to the company in 2014, along with a number of additional investors since.

Also joining the board in August was Yoel Alemán Méndez as Executive Director. Yoel is an experienced chemical engineer with over 20 years' experience in Biomass Gasification. He has designed, built and operated gasification facilities of various industrial capacities, is the author of three technology patents related to specialty power generation, has been a University Associated Professor and Researcher at three universities and holds a PhD in chemical engineering. Prior to his appointment to the senior management of the company in June 2019, Yoel was the Chief Technical Officer of EQTEC Iberia from April 2010.

Key Risks

Project timing

The projects that EQTEC works on are relatively complex in terms of planning and development, involving a number of partners and third parties. As such, there are many factors which are out of the company's direct control including the timing of commissioning, receipt of relevant planning permissions and the conclusion of financing packages. Projects can therefore be subject to delays, making the timing of revenues received uncertain.

Financing related risks

EQTEC is at present making only modest revenues and remains loss making at the bottom line. In order to fund working capital and the development of its pipeline it requires access to adequate levels of financing. This risk is mitigated by the company having access to the Altair and Riverfort loan facilities. EQTEC also has a number of warrants and options in issue which could raise modest funds and access to the equity markets should the need arise. There is the potential for equity dilution should further funds be raised by any of the latter two methods, with dilution also a possibility should loans be further converted into equity.

Technology risk

Many projects in the waste-to-energy market have been unsuccessful due to the failure of the underlying gasifier technology. This risk is mitigated by EQTEC's advanced gasification technology having been developed over a 20-year period and having over 100,000 operating hours in commercial plants. Nevertheless, there are a number of competing waste-to-energy technologies on the market that may become more widely accepted by commercial clients.

Partnership risk

EQTEC's current strategy involves entering into strategic partnerships with third-parties including engineering consultants, energy investors, and EPC contractors. As such the company will have a lower degree of control over certain aspects of projects it works on and could be exposed to additional operational, financial, legal and compliance risks.

Currency risk

Being domiciled in Ireland, EQTEC presents its accounts in euros, which is also the company's functional currency. Being listed in the UK, the valuation that investors award to the shares may be exposed to changes in the euro/sterling exchange rate. Exposure to exchange rates will increase should, as expected, the company successfully increase revenues received in the form of sterling, the US dollar and others.

Forecasts

EQTEC now has a substantial pipeline of projects which should begin commissioning and be completed over the coming two/three years. Working with management we have put together forecasts for the three financial years to 2022 and used these as a basis for providing a valuation for the company. These are our key assumptions:

Revenues & gross margin

In our model we include all of the projects currently announced to the market. These amount to three in the UK, six in the EU and three in the US, with construction terms lasting between 12 and 24 months. Applying various start dates for the individual projects we assume that a typical project will see EQTEC receive c.25% of the total contract cost up front, with various milestone payments made during the lifetime of the contract and a final payment on commissioning. For modelling purposes, we assume four equal payments are made over the life of the project, one in the month of commencement, one in the month following completion and the remaining two at equal intervals over the project period.

Gross margins on the projects are typically assumed to be 20%, with some small variances. To be conservative, at this stage we do not consider any revenues from O&M services or income from equity interests (as in the case of North Fork).

Borrowings

Interest expenses are calculated on the Altair and Riverfort facilities in line with the revised terms. We assume these are non-cash, as discussed below. Interest payments on other bank borrowings are assumed to be paid in cash.

Following the June 2019 restructuring, all amounts outstanding (principal and accrued interest) on the Altair and Riverfort facilities are due as a single payment on 31st July 2020, together with a cash redemption fee of 8%. However, Altair and Riverfort have been given the right, at their sole discretion, to convert the amounts due in to EQTEC shares, in part or in full, at a price of 0.66 pence per share. If this is the case, no redemption fee will be due.

For modelling and valuation purposes we are assuming that the loans are extended to the end of the forecast period and that interest continues to be rolled up. While we forecast that EQTEC will not have sufficient funds to pay back the borrowings in full when due in July**, we believe following discussion with the company that the lenders would be willing to extend the repayment date given their previous support of the company and close relationship with management.**

Other key assumptions

Administration expenses in 2020 are forecast to be in line with H1 2019 (on a pro-rata basis), rising by 10% in the remaining two years. Given historic losses, we assume a zero-tax rate over the forecast period. For simplicity we assume no major change in PPE or intangibles on the balance sheet as the revenue assumptions above are based on a capex light model. For working capital, we expect inventories to remain flat as they are not relevant to the technology sale business which is project specific. For debtors, we assume it takes an average of 30 days for the payments to be received, with days payable also at 30.

The key P&L figures from the model are presented below:

€	2020	2021	2022
Revenues	14,387,500	41,525,000	31,950,000
COGS	-11,960,000	-33,291,250	-25,533,750
GROSS PROFIT	**2,427,500**	**8,233,750**	**6,416,250**
Admin expenses	-2,276,454	-2,504,099	-2,754,509
EBITDA	**151,046**	**5,729,651**	**3,661,741**
Interest	-194,637	-341,207	-381,358
PRE-TAX PROFIT (LOSS)	**-43,591**	**5,388,444**	**3,280,383**
Tax	0	0	0
NET PROFIT (LOSS)	**-43,591**	**5,388,444**	**3,280,383**

At the top line we expect revenues to grow markedly over 2020 and 2021 as EQTEC delivers on its project pipeline. In 2022 these fall as projects come to end and final payments are received. Profits follow a similar course.

It must be pointed out that our model only considers the *current* project pipeline and doesn't consider any additional work not announced to the market at this time. As such, if the company wins further business over the coming months, the reality is that the 2022 (and 2021) figures have significant upside potential in our view. However, we note our forecasts remain highly sensitive to timing issues and project delays, with these being a major risk to the investment case.

Notable is the company's strong operational gearing, with administration costs at the group level being relatively low and fixed. At the bottom line we are expecting a small loss for 2020, with net profits rising to €5.39 million in 2021, falling to €3.28 million in 2022 for the reason discussed above.

Valuation

Shares in EQTEC have avoided the worst of the recent market troubles, having risen from lows of 0.09p in November 2019 to the current 0.155p. That however still only capitalises the company at just £6.1 million.

As per previous notes, our preferred valuation measure for the shares is the EV/EBITDA multiple, which can be compared against industry peers. We use 2021 as the basis for our valuation given the ramp up in projects seen that year. **At the current share price and based on an end 2019 net debt position of €2.25 million, EQTEC trades on an EV/EBITDA multiple of just 1.6 times our 2021 forecasts, which reflects the large expected increase in activity that year.**

There remain few companies in the London listed alternative energy sub-sector which are currently making a profit. However, we consider the best (although not perfect) comparator to be the renewable energy supplier Good Energy (GOOD). The business model is different to EQTEC's, with Good Energy making revenues from the sale of power and gas from its own and third-party plants, but the company is at least currently making decent levels of profit.

From historic results for the 2018 financial year we calculate an EBITDA of £9.9 million. With net debt of £35.5 million as at 30th June 2019 and a current market cap of £27.5 million Good Energy's historic EV/EBITDA multiple is 6.39 times. **Applying the multiple, which we consider reasonable, to EQTEC's 2021 EBITDA forecasts and accounting for historic net debt implies a market cap of €34.36 million (£30.68 million). Divided by the current number of shares in issue equates to a target price of 0.78p, implying 403% upside from the current price.**

One closer comparator, albeit loss making, is hydrogen from plastic waste business Powerhouse Energy (PHE). Powerhouse currently commands an enterprise value of £19.32 million in contrast to EQTEC's EV of just £8.1 million. In our view, Powerhouse's higher valuation does not reconcile with the fact that it remains pre-revenue and that EQTEC has a substantially larger pipeline of profitable projects lined up. **Should EQTEC trade on the same EV as Powerhouse then the market cap would be £17.32 million, giving a value per share of 0.44p.**

Also providing evidence of how cheap EQTEC shares look in relation to peers, there have been a number of recent financings amongst private, earlier stage waste to energy companies at higher valuations than EQTEC currently commands. In complete contrast to EQTEC, the following two companies are still at pilot plant stage, with no commercial scale, proven operating hours or substantial business pipelines.

In July last year the Spanish investor Moira Capital bought a 70% stake in GreenE Waste to Energy, a Spanish technology company for the recovery of waste by gasification, for €40 million. Despite being at an earlier stage than EQTEC, the financing valued the business at c.€57 million (£51 million), more than eight times EQTEC's current market cap. Meanwhile, last July waste gasification company Sierra Energy Corporation, which only has a commercial-scale demonstration facility, closed a $33 million Series A investment round at a reported pre-money valuation of $60 million (£48.7 million).

Conclusion

EQTEC goes into the remainder of 2020 with a strong pipeline of projects. With the success seen at North Fork in the US, the company now has a reference case project and a partner which looks committed to working on finding new deals in the country. Elsewhere in the world, especially the EU and UK, further projects set the scene nicely for growth over the coming years.

As discussed, there remains execution risk involved in meeting our forecast figures, with the potential for projects to be delayed being a major constituent of this. However, as we have seen in the past, EQTEC shares have been responsive to positive announcements to the market. With the potential for a strong flow of news we therefore see a number of possible catalysts for the shares in the near term and through 2020.

We update coverage of EQTEC with a revised target price of 0.78p and a stance of **Conviction Buy.**

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