ALIGN
RESEARCH

EQTEC

6th April 2021

Forecasts update following record project pipeline. EBITDA profits expected this year with further growth beyond

EQTEC provides engineering and design services and sells its EQTEC Advanced Gasification Technology to waste-to-value operators and enterprise partners. Its solutions are proven to process a wide variety of feedstock, including municipal waste, agricultural waste, biomass and plastics, with no hazardous waste or toxic emissions. EQTEC's solutions produce a pure high-quality synthesis gas (syngas), capable of being used for the widest applications in the creation of energy, hydrogen and biofuels The company works together with multiple parties involved in projects including 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.

March trading update confirms growth of commercial opportunities

EQTEC has experienced considerable growth in its non-contracted project pipeline since September 2020. The number of opportunities has grown from 41 to 75, up 83% over six months. Additionally, between July 2020 and February 2021, non-contracted tender opportunities worth a total potential of €316 million were added for a total potential pipeline value of €657 million.

Maiden EBITDA profits expected this year with further growth in 2022/23

For 2021 EQTEC is targeting considerable, contracted sales growth from 6 – 8 projects across Europe, including new technology collaborations. This includes the RDF plant at Billingham in the UK, the company's largest project, valued at over €30 million in sales to EQTEC over the construction phase of the project**.** Revenues for 2021 from existing, inflight projects, from new projects and from gradual growth in maintenance and consulting contracts, are forecast to drive positive annual EBITDA for the first time. Further growth is forecast for 2022 and 2023 based on the breadth and variety of deals in the pipeline.

Forecasts revised to consider enlarged pipeline and project delays

Given the increase in the pipeline, offset by certain project delays, we have revised our forecasts. While our 2021 numbers have been revised down, our 2022 EBITDA expectations are broadly similar, edging up by €0.1 million to €10.9 million. We introduce 2023 forecasts, expecting the substantial non-contracted pipeline to translate into commercial success, with revenues more than doubling to €118.5 million and EBITDA growing by 116% to €23.5 million.

Blended EV/EBITDA & peer valuation suggests upside of 43%

For our target price we choose a blended valuation comprising of 50% of our EV/EBITDA valuation and 50% of our peer comparable valuation. This gives a figure of 3.115p per share. We therefore update coverage of EQTEC with a target price of 3.115p and a stance of **Conviction Buy.**

CONVICTION BUY
Price target – 3.115p

Key data

EPIC	EQT
Share price	2.175p
52 week high/low	3.17p/0.25p
Listing	AIM
Shares in issue	7,207,912,190
Market Cap	£156.78m
Sector	Alternative Energy

12 month share price chart

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Investment Case

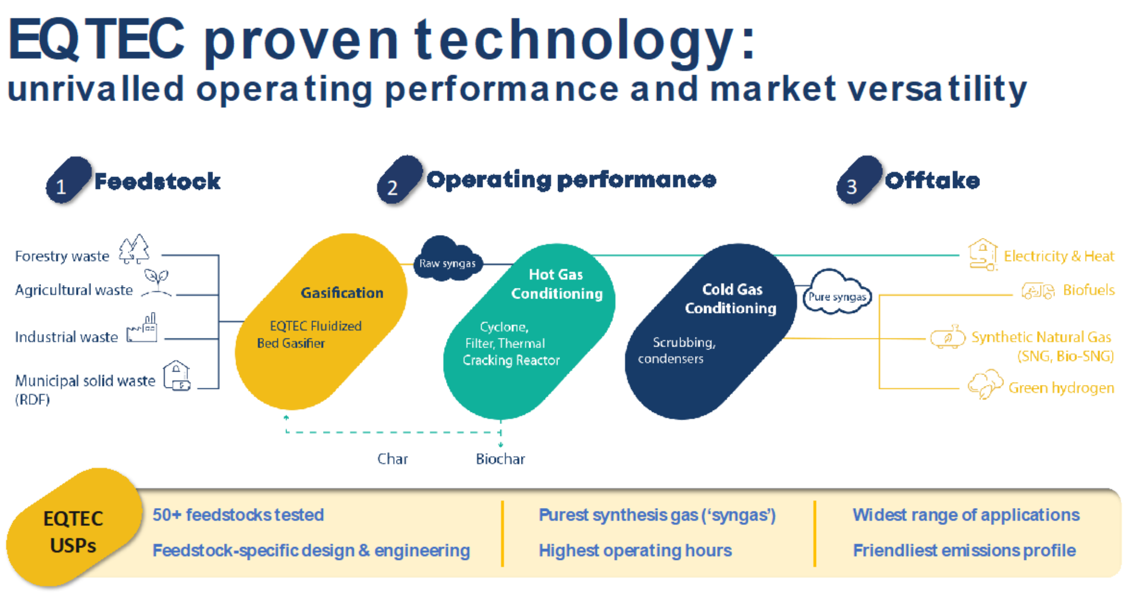
We last updated on EQTEC on 6th January 2021, saying "take profits" on the shares after they rose to 2.635p, ahead of our then target price of 1.39p. With the shares now back down at 2.175p and following significant recent developments, we are now revisiting the investment case.

Operations

EQTEC 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 over the past two decades, is based on a bubbling fluidised bed reactor for the gasification of a wide range of combustible materials.

The company's advanced gasification solutions have a high efficiency offering and are modular, being scalable from 1MW to 30MW. They have been independently proven to process over 50 different types of feedstock, including municipal waste, agricultural waste, biomass and plastics with no hazardous waste or toxic emissions. The syngas produced is capable of being used for the widest applications in the creation of energy, hydrogen and biofuels.

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. 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.



Source: Company

Business model

Since David Palumbo took on the position of CEO in September 2019 EQTEC has made significant progress in advancing its commercial strategy. Core to the business model is a focus 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. It essentially acts as a coordinator of all the main parties involved and operates with a view to ultimately provide its advanced gasification technology and associated engineering and design services.

Meanwhile, helping to accelerate the conversion of deals with its partners, EQTEC provides its own development capital for specific projects at an early stage. This helps to advance engineering and project planning work toward the critical milestone of financial close of the project, the point when large revenues can start to be earned. This also helps EQTEC to direct and assure the quality of preparations and mitigation of risks, as well as earn a return on its capital at financial close.

Revenue 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 operation & maintenance (O&M) services to plant owners; and fee income from technology licensing in certain markets. A typical project will see EQTEC receive a proportion of the total contract cost up front, with various milestone payments made during the lifetime of the contract and a final payment on commissioning. The ownership position route sees 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.

Markets

By sector of the waste-to-energy market EQTEC focusses on three verticals.

Biomass-to-Energy - EQTEC's target project size in the biomass sector is 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. In Europe, EQTEC has a Collaboration Framework Agreement with German EPC company ewerGy for the development of a portfolio of projects in Greece and the Balkan Region.

Refuse Derived Fuel (RDF)-to-Energy - 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.

Biomass-to-Bioenergy – Here the focus is the application of its Advanced Gasification technology capabilities to methanation and the production of biofuels and/or bio-SNG. These projects will focus on production of advanced biofuels as well as electricity and heating. Discussions with strategic technology partners are progressing for joint development of biomass-to-biofuels solutions based on EQTEC technologies.

In terms of the value of EQTEC's addressable markets, we look at figures from the Confederation of European Waste to Energy Plants. EQTEC suggests that if the company targets 3% of the €20 billion serviceable market for infrastructure and €70 billion of infrastructure coming to end of life the obtainable market would be €600 million through 2030 only replacing existing incineration infrastructure. We note that the current pipeline does not include any incineration replacement projects, which means that the addressable market is potentially much higher. Other markets in which EQTEC is able to sell its solutions are; advanced biofuels, expected to be worth c.$307.01 billion by 2030 from $141.32 billion in 2020; and hydrogen generation, valued at $120.77 billion in 2020 and expected to grow by a compound annual rate of 5.7% from 2021 to 2028.

Adding further executive talent to the team, in December 2020 Jeffrey Vander Linden was appointed to the Board of Directors in the role of Strategy & Operations Director and Chief Operating Officer. His remit is to develop project execution and business management disciplines, grow EQTEC's partner ecosystem and strength its operational platform to scale the business. Vander Linden has been working with EQTEC since July 2020 in a consulting capacity and has significant experience as a senior advisor and programme lead to global corporations, transforming operations and building scale.

Operational Progress

A trading update released on 22nd March 2021 reported on a number of positive events seen in H2 2020 and the first few months of 2021.

Commercial Pipeline

Since the announcement of the interim results in September 2020, EQTEC has experienced considerable growth in its non-contracted project pipeline, especially in Europe, with notable new interest from Asia, the Middle East and Australia. The number of opportunities has grown from 41 to 75, up 83% over six months. **Additionally, between July 2020 and February 2021, the company added non-contracted tender opportunities worth a total potential of €316 million for a total potential pipeline value of €657 million.** Of 14 pipeline opportunities prioritised for immediate pursuit, 12 have been introduced through five core partners. Over the same period full commercial offers worth a total of €246 million were sent.

Biomass-to Energy

By industry vertical, in Biomass-to Energy EQTEC has two plants currently under construction – the Agrigas 1 agricultural waste project in Larissa, Greece and the North Fork Community Power forestry waste project in California. Pipeline growth is said to have been especially strong in Greece and Croatia for biomass-to-energy projects, with additional opportunities emerging in Italy, Spain, France and the US.

In Greece, partner ewerGy GmbH is driving pursuit of the Nobilis project, for which project delivery team and permissions are now in place and planning application has been made for a grid connection. Over a dozen new opportunities in Greece are identified for 2021 to 2023, with a handful of those targeted for this year. In Croatia, EQTEC is finalising legal execution of a joint venture with local partner Sense ESCO d.o.o. that will pursue a portfolio of projects there including two in 2021 and a further two in 2022.

RDF-to-Energy

The proposed 25 MWe Billingham waste gasification and power plant in Haverton Hill, Billingham, County Durham, is considered to be EQTEC’s flagship project in the UK. It is expected to process 200,000 metric tons per annum of refuse derived fuel (RDF) from municipal waste and be the UK's first sustainable waste-to-energy plant using EQTEC's advanced gasification technology and solutions.

Significant progress has been made on the Billingham project over recent months. In January, a resolution was received from Stockton-on-Tees Borough Council to grant planning approval for an improved scheme which was proposed by EQTEC to reduce the project’s environmental impact and improve its commercial outcome.

A conditional land purchase agreement signed in February by a wholly owned subsidiary of EQTEC and partner Scott Bros. Enterprises. Consideration is £8.6 million, with a deposit of £260,000 payable immediately and the balance payable at completion of the land purchase. The agreement is conditional on a number of events including; financial close of the project; key construction, operational, offtake and feedstock contracts; and full permitting by the relevant planning and environmental authorities. There is now an experienced project delivery team in place with pre-enablement works underway.

Once full commercial EPC offers are reviewed and negotiated to contract, a final decision will be reached with regards the funding structure for the project. On that front, the deal is currently under review by Idex Group, a European owner-operator of waste-to-energy infrastructure. Subject to completion of a final review and requisite documentation, Idex is expected to provide the financing required for the construction phases and then own and commercially operate the plant. EQTEC expects to act as the co-developer on the project, providing the design and core advance gasification technology and retain the maintenance portion of the O&M contract.

Billingham site. Source: Company

Elsewhere in the UK, two other projects are expected to progress in 2021 with similar milestones to the Billingham project: one in Deeside, Flintshire, with co-developer Logik Developments Limited and one in Southport, Merseyside with co-developer Rotunda Group Limited. EQTEC also recently announced that it has agreed to collaborate to explore a sustainable waste-to-energy solution for Toyota's engine manufacturing plant in Deeside (see more on page 7). Subject to financial close, construction is expected to commence at Deeside and Southport in 2022.

Biomass-to-Bioenergy

In Biomass-to-Bioenergy, EQTEC has reported progress toward application of its Advanced Gasification technology capabilities to the production of biofuels including bio-SNG, starting with opportunities in Ireland. Within the company's collaboration agreement with Irish green energy business Carbon Sole Group Limited, two biomass-to-bioenergy plants are being developed, with one additional site under review. These projects will focus on production of advanced biofuels as well as electricity and heating. Discussions with strategic technology partners are progressing for joint development of biomass-to-biofuels solutions based on EQTEC technologies. A planning application has been submitted for the first project, in Shannon.

Technology

Recommissioning EQTEC technology

EQTEC is currently pursuing recovery of two plants built with its technology where operations are suspended by their owner-operators for lack of technical integration capabilities. This will see EQTEC lead consortia to acquire, re-power, own and operate its technology in target markets such as Italy & Croatia. The two plants are expected to be acquired in 2021, with the first nearing completion.

R&D projects

Further advancing its technology, EQTEC expects to co-invest with partners in a number of significant R&D projects in 2021. With long-standing partners the University of Lorraine in France and the University of Extremadura in Spain, as well as prospective private sector partners, it will pursue tests and research to enable usage of new types of feedstock, including all variations of RDF, sludge and plastics; as well as a range of technologies for applications in biofuel, bio-SNG and green hydrogen.

Partnerships

New partnerships continue to be established, and on that front EQTEC has entered into a Framework Partnership Agreement (FPA) with London listed natural resources investing company **MetalNRG** to develop biomass-to-energy, RDF-to-energy and sustainable, clean energy projects in the UK and Europe. MetalNRG's Special Purpose Vehicle, MetalNRG Eco Limited, will participate in the equity of shovel-ready projects in EQTEC's pipeline. EQTEC will advise the SPV technically, financially and operationally, becoming MetalNRG's preferred technology partner. When MetalNRG finalises its prospectus, EQTEC will acquire £500,000 in value of MetalNRG shares through the exchange of the same value of EQTEC shares.

Also this year, EQTEC has signed a Collaboration Framework Agreement with **Logik Developments Limited**, a specialist, strategic land developer committed to the development of waste-to-value projects in the UK. This followed the acquisition by EQTEC of Logik WTE Limited, the SPV for the Deeside RDF project, from Logik last December. Under the new, initial three year, deal, EQTEC and Logik will collaborate and develop projects together in the UK and jointly promote other commercial opportunities. Logik will grant EQTEC exclusivity, by right of first refusal, for the development of waste-to-energy projects in Logik's UK portfolio. Five project opportunities for joint pursuit have been identified, including Deeside, with four additional projects subject to preliminary due diligence.

Further, in March EQTEC announced the signing of a three year Collaboration Framework Agreement with **Toyota Motor Manufacturing (UK),** put in place through the Deeside project SPV. The two parties have agreed to collaborate to explore an innovative, circular and sustainable waste-to-energy solution for Toyota's engine manufacturing plant that is adjacent to the Deeside site. They will also work together to identify the waste viability of reducing Toyota's non-recyclable waste and potentially converting some or all of the waste into energy,

Aries Clean Energy complaint

Finally, following its patent infringement claim against EQTEC in July last year, US company Aries Clean Energy of Franklin, Tennessee, has had its case dismissed. In December 2020, EQTEC filed a Motion to Dismiss Aries' lawsuit and in its response, Aries admitted that the technology identified in the complaint was not actually accused of infringing and it had no further evidence to support speculative claims regarding any other EQTEC technology. Aries will dismiss the case 'with prejudice', being unable to assert the patents in any future complaint against the relevant EQTEC gasifier technology.

Recent Financials and Outlook

Financing

In July 2020, EQTEC significantly strengthened its balance sheet by raising £10 million via a placing and subscription at an issue price of 0.45p. In conjunction, existing lenders converted debt of c.£1 million into equity. Amongst other things, the funds were earmarked for specific project development capital, working capital and investment in infrastructure.

This followed a re-profiling of debt facilities with lenders Altair and Riverfort in June 2020, with existing loans plus interest totalling €2.7 million having their maturity extended from 31st July 2020 to 30th June 2021, with interest rates reduced from 12.5% to 10%. In January 2021 a further £1.25 million unsecured loan at 6% was agreed with Altair, repayable on 31st December 2021, and used to pay all sums due to the Riverfort Lenders. In addition, three separate warrant exercises since early December 2020 have raised a total of £706,553.

Interims

EQTEC's most recent results covered trading in the six months to June 2020. Revenues for the period were €0.77 million, mainly related to the provision of technology and engineering services at the North Fork project. Operating losses were €1.3 million, up from €1.1 million in H2 2019, mainly due to an increase in administrative expenses over the period. Due to lower finance costs following the debt re-profiling, net losses fell from €1.97 million in H1 2019 to €1.85 million.

Positive Financial Outlook

The March 2021 trading update revealed that, into the current financial year and beyond, revenues are expected to see a steep increase as more projects come on stream. For 2021 EQTEC is targeting considerable, contracted sales growth from 6 – 8 projects across Europe, including new technology collaborations. This includes Billingham, the company's largest project which is valued at over €30 million in engineering and technology sales to EQTEC over the construction phase of the project**. Revenues for 2021 from existing, inflight projects, from new projects and from gradual growth in maintenance and consulting contracts, are forecast to drive positive annual EBITDA for the first time.**

Results for FY2020 meanwhile will be announced in April. Revenues for the year are expected to be broadly in line with market expectations, with EQTEC expecting to report a loss not lower than €4 million before any potential one-off adjustments. During the year and into 2021, Covid-19, Brexit and forest fires in California are said to have impacted the pace of business, causing limitations to site visits and delays to decision making and financial transactions. As a result, while no deals have been dropped, their time frames have been pushed further out into the coming years. On the upside, it is expected that these impacts will subside through 2021, with significant growth expected in the number, size and types of deals closed. Further growth is forecast for 2022 and 2023 based on the breadth and variety of deals in the pipeline.

Forecasts Update

We last updated our forecasts for EQTEC in July 2020. Given the significant increase in the project pipeline seen since then, offset by the Covid/Brexit/forest fire related delays, we have now revisited our numbers. Despite the delays seen, 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 2020 to 2023 financial years and used these as a basis for providing a valuation for the company. Our new numbers are presented below.

	2020	2021	2022	2023
Revenues (€)	2,400,000	15,506,000	55,639,000	118,497,000
EBITDA (€)	-3,800,000	3,456,000	10,931,000	23,502,000
PBT (€)	-4,000,000	3,425,000	10,924,000	23,495,000
Net income (€)	-4,000,000	3,425,000	8,411,480	18,091,150
EPS (c)	-0.043	0.048	0.117	0.251
EPS (p)	-0.037	0.041	0.100	0.215

Source: Align Research

We were previously expecting a modest EBITDA loss of €0.61 million for 2020 but due to project delays this is now expected to be €2.5 million as revenues of just €2.4 million are booked in. There is a similar downward effect in 2021, with revenue forecasts down from €38.5 million previously to €15.5 million (including a first contribution from Billingham). While our 2021 EBITDA forecast has been revised down from €5.5 million to €3.4 million, we still expect this to be EQTEC's first full year of profitability, as guided to in the recent trading update.

For 2022 however our EBITDA forecasts are broadly similar, edging up by €0.1 million to €10.9 million. This is the first year when the company's operational gearing really starts to kick in, with administration costs at the group level being relatively low and fixed. We introduce 2023 forecasts for the first time, expecting the substantial non-contracted pipeline to translate into commercial success, with revenues more than doubling to €118.5 million and EBITDA growing by 116% to €23.5 million.

Valuation

Shares in EQTEC have performed well over the past six months as investors have reacted to the stream of good newsflow. They have risen from a steady level of c.0.5p seen for much of Q3/Q4 2020 and peaked at 3.17p early in the new year. At the current level of 2.175p, and following the recent warrant exercises the company's market cap is £156.78 million.

With EQTEC expected to grow strongly over the coming years and our forecasting the company to move into profit at the operating level in 2021, we consider that a multiple of 12 times EBITDA is a justifiable figure to use for our valuation, especially given the company's growth profile and de-risking of the business over recent months. **On our 2023 forecasts and on an EV/EBITDA multiple basis that gives a valuation of 3.96p per share. Discounted back to end March 2021 at a rate of 12% gives a price of 2.9p per share.**

Peer analysis

Alongside EQTEC, several other companies in the wider London listed alternative energy industry have seen their share prices perform well over the past 12 months, although most have pulled back from their peaks. Investors have continued to be attracted to the sector despite many companies continuing to be loss making and pre-revenue. Several listed companies have taken advantage of this by raising significant funds via equity issues in recent months. Of the largest, ITM Power (ITM) raised £165 million in October 2020, with Ceres Power (CWR) raising £181 million in March 2021.

To apply a supporting valuation to EQTEC shares we have taken a look at the wider peer group, comparing on an enterprise value basis given the lack of profit figures across the sector. Only two companies in our selected peer group, Inspired Energy (INSE) and Good Energy (GOOD), are currently profitable.

Name	**Market Cap (£m)**	**Net cash/ (debt) (£m)**	**Enterprise value (£m)**	**Historic revenue (£m)**	**Historic net profit/(loss) (£m)**
ITM Power	2,304.50	187	2,117.5	3.3	-29.6
Ceres Power	2,084.70	283.2	1,801.5	31.7	-14.8
AFC Energy	322.6	31.6	291.0	0	-4.2
Powerhouse Energy	249.1	15.2	233.9	0	-1.5
Inspired Energy	167.4	128	39.4	49.3	13.1
Velocys	64.9	17.1	47.8	0.3	-9.7
Simec Atlantis Energy	42.4	-34.4	76.8	4.9	-20.7
Active Energy	40	8.5	31.5	1.9	-2.5
Good Energy	38.8	-36.5	75.3	124.3	1.9
Verditek	15	1.7	13.3	0	-1.8

Source: Align Research. Data sources: Sharepad and company announcements

Given the two large outlying valuations provided by ITM Power and Ceres Power we feel it would not be appropriate to apply an average peer group enterprise value to EQTEC. **However, it is worth mentioning the discrepancy in valuations between EQTEC and ITM, the hydrogen specialist and highest valued alternative energy company on AIM.** ITM's interims in late January revealed a total attributable pipeline value of £284 million, which, interestingly, contrasts with EQTEC's recently announced potential pipeline value of €657 million (£562 million). **ITM remains loss making, yet EQTEC is expecting to turn a maiden profit this financial year. It is thus puzzling to see that ITM's current market cap is some 17 times higher than EQTEC's.** While ITM is significantly better capitalised following the recent fundraising we do not believe that this goes to remotely justify the valuation discrepancy here.

EQTEC's closest listed peer in terms of technology and markets is the sustainable hydrogen company Powerhouse Energy (PHE). Last year Powerhouse signed an option to enter into an exclusive agreement for the development of DMG® Technology in the UK with waste infrastructure developer Peel Environmental, under which it could receive £0.5 million as a one-off fee and then on an ongoing basis receive an annual licence fee of c.£0.5 million for each DMG® plant that Peel develops. Further, last November Powerhouse signed non-binding Heads of Terms with Hydrogen Utopia International Limited (HUI) with a view to granting HUI an exclusive non-transferable licence for the application of its DMG® technology in Poland.

While no figures have been released regarding a commercial pipeline, a recent trading update revealed that the firm is continuing to focus on the first hydrogen facility using its technology, based at Peel's NRE's Protos site, meeting the target of being commissioned and operational by the end of Q1 2022. Progress in Poland with HUI is said to have been satisfactory with hopes for a first plant in Poland to be commissioned within a similar timeframe to the one proposed at the Protos site.

Despite the lack of commercial pipeline figures, Powerhouse's enterprise value of £233.9 million compares with EQTEC's current EV of £150.78 million. Again, we believe that this valuation difference is completely unjustified given EQTEC's larger and more advanced pipeline and commercial progress. **Should EQTEC's enterprise value move in line with Powerhouse's, a market cap of £239.9 million is implied for EQTEC, equating to 3.33p per share.**

Conclusion

EQTEC now has a substantial pipeline of projects that, if translated into commercial agreements, sets the stage for rapid revenue growth over the next few years. In our view, David Palumbo has done a great job of repositioning the business and is delivering on the strategy to work with key industry partners to progress projects to financial close. While the business is now clearly at an inflection point, investors must remember that the greatest risk to our forecasts being met remains the potential for projects to be delayed.

That said, the growing pipeline provides the potential to offset any further project delays. While EQTEC has already made inroads into the US and European markets, further global opportunities present themselves, notably in the rest of North America, China and South East Asia. The recent trading update hinted at further overseas expansion following, *"…a significant increase in new interest from Asia, the Middle East and Australia, including direct approaches by potential delivery partners, including EPC companies and their suppliers."* That shows the company is attracting serious attention around the world in an industry which is only going to become more important in the decades to come.

For our price target we choose a blended valuation comprising of 50% of our EV/EBITDA valuation and 50% of the Powerhouse comparable valuation. This gives a figure of 3.115p per share. **We therefore update coverage of EQTEC with a target price of 3.115p and stance of Conviction Buy.**

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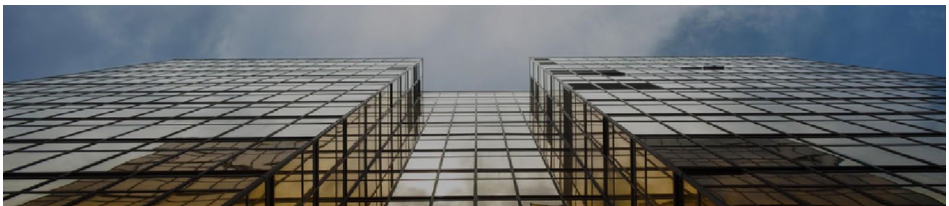

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