ALIGN RESEARCH

EQTEC

21st July 2021

Raises £16 million to accelerate commercial opportunities. Trading update confirms progress in Q2. Forecasts and target price raised.

EQTEC provides project development, engineering and design services - with its leading-edge Advanced Gasification Technology at the centre of sustainable waste-to-value plants - to operators and investors. EQTEC's solutions produce a pure high-quality synthesis gas (syngas), capable of being used for the widest applications including generating green electricity, heat, biofuels and hydrogen. The company works with and co-ordinates multiple parties for its projects, including developers, waste owners, EPCs and contractors and funders with a view to ultimately providing its gasification technology, associated engineering & design services and O&M services.

Total £16 million raised in May in over-subscribed placing

The money was raised at 1.5p per share, an 11.24% discount to the previous day's closing price. As our previous updates have highlighted, EQTEC has over the past few months developed a significant pipeline of projects. 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. With this in mind, the company will use the proceeds of the fund raise to take full advantage of a number of near-term opportunities and to prepare itself for further long-term growth.

Q2 trading update confirmed that progress continues in 2021

A July trading update confirmed that EQTEC has continued to make progress across its pipeline of opportunities in the three months to end-June. The company also confirmed that it is on track to meet its target of achieving c.€15 million of revenues for 2021 and a maiden year of profitability. This assumes that revenues are weighted towards the second half of the year as deals reach financial close and fees are received.

Forecasts revised to consider pipeline acceleration & target price raised

Following the fundraise we have revised our expectations for the 2021 to 2023 financial years and used these as a basis for providing a valuation for the company. In 2023, as more projects are progressed and the substantial non-contracted pipeline is translated into commercial success, we are now looking for revenues to more than double to €149.3 million (up from €118.5 million previously) and EBITDA to grow by 142% to €36.6 million. Using our updated 2023 forecasts, and on an EV/EBITDA multiple basis discounted back to end 2021, we derive a new target price of 3.47p per share. **Conviction Buy.**

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.

CONVICTION BUY
Price target – 3.47p

Key data

EPIC	EQT
Share price	1.19p
52 week high/low	3.17p/0.42p
Listing	AIM
Shares in issue	8,435,044,926
Market Cap	£100.4m
Sector	Alternative Energy

12 month share price chart

Analyst details

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IMPORTANT: EQTEC is a research client of Align Research. Align Research own shares in EQTEC. For full disclaimer & risk warning information please refer to the last page of this document.

Placing raises £16 million

On 28th May 2021 EQTEC (EQT) raised a total of £16 million (before expenses) with a share placing, offer and subscription at 1.5p per share, an 11.24% discount to the previous day's closing price. Institutional and other investors took part in the placing, with retail investors putting in £1 million via the PrimaryBid platform. The fund raise was over-subscribed, further demonstrating strong investor interest in the company and the alternative energy sector, with Ian Pearson, EQTEC's Non-Executive Chairman and Director, also investing £100,000.

Use of proceeds

As our previous updates have highlighted, EQTEC has over the past few months developed a significant pipeline of projects across its target markets of Biomass-to-Energy, Refuse Derived Fuel (RDF)-to-Energy and Biomass-to-Bioenergy. 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. **With this in mind, the company will use the proceeds of the latest fund raise to take full advantage of a number of near-term opportunities and to prepare itself for further long-term growth.**

UK

In the UK the funds will be deployed to secure and deliver the refuse derived fuel (RDF) project pipeline. This will include capital investment in freehold land and full project rights for one or more of the existing projects in Billingham, Deeside and Southport, along with other similar pipeline opportunities.

The proposed 25 MWe Billingham waste gasification and power plant in Haverton Hill, Billingham, County Durham, is EQTEC's largest project and will be the UK's first sustainable waste-to-energy plant using EQTEC's Advanced Gasification Technology and solutions. A conditional land purchase agreement was signed in February 2021 which 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.

Part of the funds raised will be used to accelerate the project, including for the purchase of the land. Billingham is anticipated to have a contract value in excess of €30 million to EQTEC over the life of the contract. This is then expected to lead the way for the two similarly-sized UK RDF facilities in 2022, in Deeside, Flintshire (with the funds raised also supporting the land purchase) and Southport, Merseyside.

Europe & US

In Europe, revenue growth will be accelerated in the company's main target markets of Greece, Croatia and Italy. This will include the acquisition and recommissioning of specific plants, including the recently announced revival of the 1MWe waste-to-energy plant in Castiglione d'Orcia, Tuscany, Italy, which was originally commissioned in 2015 and built around EQTEC's Advanced Gasification Technology.

The plant is due to be fully recommissioned and operational by Q2 2022 and to produce 1MW of green electricity annually from straw pellets and wood chips sourced from local farms and forests. The plant will subsequently be upgraded to process a greater diversity of biomass feedstocks over time. Connection to Italy's national grid is already in place and the project will benefit from the country's favourable tariffs for electricity produced from waste biomass until the end of 2027.

The Italian plant is the first of two such facilities with EQTEC's technology that have been decommissioned by previous owner-operators in recent years and that EQTEC has targeted for repowering to full operation. **The plant is also intended to become the first of the company's 'Market Development Centres", which will showcase EQTEC's technology in a fully operational, commercial setting. A similar facility in Croatia is also set to become a Market Development Centre.**

The funds will also be used for the delivery of biomass-to-energy solutions within local communities, to showcase EQTEC technology capabilities and performance and to accelerate interest and growth in Europe. Additionally, there will be further establishment and funding of joint ventures with local partners in target markets, for dedicated, local operations to drive sales growth and delivery.

Further inroads will also be made in the US where EQTEC has a more modest pipeline compared to Europe. The company will pursue existing opportunities in the biomass-to-energy pipeline in California, including formalising partnership agreements with local partners and investing development capital in accelerated pursuit of new deals. Across Europe and the US, EQTEC anticipates the closure of five to eight deals in 2021 with contract values over the life of the contracts totalling €20 - €30 million.

Technical and operational capability and capacity

Finally, EQTEC will invest the funds in its operational infrastructure to extend its platform for growth. This will include the acquisition of additional engineering capability and capacity to support concurrent delivery of multiple projects in multiple geographies, as well as further growth of the business development and partner management teams. There is also planned to be investment in monitoring, measurement and data management technologies as part of EQTEC solutions, for remote management and for growing the library of operational performance data.

Q2 Trading Update

On 19th July 2021 EQTEC announced a positive update covering developments seen across the business in the second quarter of the year. In Greece, the Agrigas 1 agricultural waste project, the country's first advanced gasification waste-to-energy plant, is progressing to plan with EPC partner ewerGy and local partner ECO Hellas. The first of three planned batches of EQTEC equipment has been manufactured, shipped and received on site, on time, with the remaining two shipments on track. The feedstock line is expected to be commissioned and operational in July.

Also in Greece, EQTEC is developing three biomass-to-energy opportunities via its partnership with ewerGy and ECO Hellas. The first plant is at Almyros, Thessalia, where the lease agreement for land and for a state grid connection have been established with Nobilis Pro Energy for construction of a 0.9 MWe gasification plant using local, agricultural waste as feedstock. The second is a new opportunity in North Central Greece, with a signed letter of intent with exclusivity to carry out due diligence for a new 5 MWe plant using locally sourced forestry waste as feedstock. The third is a new opportunity, with a signed letter of intent with exclusivity to carry out due diligence for a new 1 MWe plant using locally sourced agricultural waste as feedstock.

In the US, construction at the North Fork Community Power forestry waste project in California has progressed with installation of the gasification reactor and associated equipment, inside the primary steel structures. EQTEC and its partners are refining plans to accelerate work in light of previously reported Covid-19 and forest fire related delays. The company has also made a non-binding proposal to provide a convertible loan facility to take the project to completion. If fully drawn down and converted this would result in EQTEC taking a controlling interest in the project. Parties to the agreement are finalising negotiation of terms for legal execution, which EQTEC anticipates will conclude shortly.

Meanwhile in Italy, in June, financial close was achieved on the Italia MDC Project, the first of the planned Market Development Centres. Working with a consortium of co-investors, EQTEC will recommission the 1 MWe biomass-to-energy plant and expects to earn technology sales of €1,750,000 along with recurring revenue and profits from the plant once operational. Orders for the manufacture of equipment have been placed and the first payment for technology sales has been invoiced. The EQTEC technical team is on site, completing engineering surveys, meeting EPC partners and local stakeholders.

In Croatia, a joint-venture, Synergy Projects, has been set up between EQTEC and Croatian project development partner Sense ESCO. EQTEQ will be the majority shareholder, providing development services to support qualifying and pursuing deals, with Sense ESCO providing a Managing Director, development team and local relationships to generate pipeline and drive projects to financial close and beyond. Synergy Projects is already pursuing two deals in Croatia, subject to due diligence and financing, including a Market Development Centre through recommissioning of a 1.2 MWe plant in Beliše, which has existing EQTEC Advanced Gasification Technology inside, and it is targeting a 1.2 MWe plant in Karlovac. Similar joint-ventures are expected to be established partners in other target markets.

In the UK, the three RDF-to-energy projects are said to be making good progress toward financial close. The Billingham project development and associated engineering work, led by an EQTEC team, has produced a detailed design for the core gasification process and equipment and a concept design for the full plant. In July it is expected that this will be reviewed with potential funders, including French waste-to-energy owner-operator, Groupe Idex. Additionally, the project team is selecting delivery partners, including Tier 1 EPC companies.

In June, the company submitted a planning application for a Phase 2 gasification facility deploying EQTEC technology at the Deeside site where Phase 1 recycling and anaerobic digestion facilities are already approved for development. As most planning conditions have been satisfied for Phase 1, the project is said to be on track for financial close. The development project is being pursued in partnership with partner Logik Developments, with active engagement with local authorities throughout the planning process.

The Southport project also has permission for a pre-existing Phase 1 anaerobic digestion facility and the intended Phase 2 addition of an advanced gasification facility. EQTEC will submit a revised planning application for Phase 1 in early August 2021, in advance of the intended Phase 2 planning submission that will be submitted later in the year. A pre-planning consultation has been carried out with the local authority whereby Phase 1 and Phase 2 master plans were welcomed by the local authority and given their support. The development project is being pursued by the company with development partner Rotunda Group.

In Ireland, two opportunities for biomass-to-bioenergy projects are being led by partner Carbon Sole Group. At the Shannon site, Carbon Sole responded in May to the local authority's Further Information Request by filing environmental studies that confirm the proposed plant would have low-tier environmental impacts. A decision on planning approval at local level is anticipated in late July. For the Sligo site, all planning documentation is being finalised and is expected to be submitted by the end of July. Carbon Sole has signed letters of intent for feedstock supply for sustainable forestry waste for the proposed plants. Additionally, Carbon Sole is in the process of securing a third site, with the intention of securing exclusivity by Q4.

Finally, EQTEC is progressing a number of significant R&D projects with its partners, to prepare its technology for application to a wider range of opportunities. The company is working with leading certifications agency TÜV to achieve a certification for hydrogen-linked technologies. During the current quarter, several types of RDF material are expected to be tested with its partners at the Université de Lorraine in France, with Fischer-Tropsch gas-to-liquid tests planned for Q4 subject to pending health and safety approvals, expected in Q3.

During the first half, EQTEC and partner Wood Group collaborated on and completed gasification technology and market reviews, along with exploring opportunities for technology and other collaboration. Discussions have progressed with a view to identifying and pursuing new capabilities and solutions for the global waste-to-energy market.

Financials & New Director

In terms of financials, EQTEC confirmed that its previous forecast for c.€15 million of revenues for 2021 remains on track to be met. This forecast assumes that revenues are weighted towards the second half of the year as deals reach financial close and fees are received. Subject to timely closure of target opportunities, along with the receipt of development fees and initial technology equipment and services fees, EQTEC continues to expect a maiden year of profitability in 2021.

In other news, following the May announcement that Finance Director Gerry Madden will retire this year, he has been replaced by Nauman Babar as of 19th July 2021. Nauman is a PwC trained FCA (ICAEW) who has significant Transaction Advisory experience with a career focused mainly on the Energy and Utilities sector, with his last position at a Private Equity backed Energy Services company based in the Middle East.

Forecasts Update

Following the receipt of the substantial fundraising proceeds, EQTEC is in an excellent position to accelerate both its near and long term revenue growth. We last updated our forecasts for the company in April this year following the significant increase in the project pipeline. Following the fund raise, and working with management, we have now revised our expectations for the 2021 to 2023 financial years and used these as a basis for providing a valuation. Our new numbers are presented below.

Over the next few months we now expect the strong flow of news coming from the company to accelerate, with revenues being generated from technology sales and maintenance contracts, along with operations revenue where EQTEC has an equity stake in operating plants. We continue to expect gross margins at the 20% level, with additional revenues coming from development activities on selected projects.

Old Forecasts

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

Source: Align Research

New Forecasts

	2021E	2022E	2023E
Revenues (€m)	15,506,000	63,100,000	149,300,000
EBITDA (€m)	3,456,000	15,500,000	36,600,000
PBT (€m)	3,425,000	15,100,000	36,300,000
Net income (€m)	3,425,000	11,500,000	27,200,000
EPS (c)	0.041	0.136	0.322
EPS (p)	0.035	0.117	0.277

Source: Align Research

Our 2021 forecasts are relatively unchanged, with only small reductions in expected earnings due to the dilutive effect of the capital raise and exchange rate movements since our last update. As guided to by management, we continue to expect revenues of c.€15 million for the year and a maiden EBITDA of €3.46 million.

In 2022 we expect a rapid increase in technology sales, O&M and project development and ownership revenues, with the top line growing to €63.1 million. While we note the “hockey stick” nature of this growth we believe it is reasonable given the extensive project pipeline and supportive capital raise. With costs at the group level being relatively low and fixed we expect the company’s operational gearing to really kick in during 2022, with our EBITDA forecasts rising from €10.9 million previously to €15.5 million. Similar trends are expected in 2023 as more projects are progressed and the substantial non-contracted pipeline is translated into commercial success. We are looking for revenues to more than double to €149.3 million (up from €118.5 million previously) and EBITDA to grow by 142% to €36.6 million.

Valuation

Shares in EQTEC remain well above the sub 0.5p lows seen for much of 2019 and 2020 but since peaking at 2.8p in January 2021 have slipped back to current levels of 1.19p, below the recent fund raising price. Following the recent issue of shares that values the business at £100.4 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 continue to consider that a multiple of 12 times EBITDA is a justifiable figure to use for our valuation, perhaps even conservative given the company's growth profile, strong cash position and de-risking of the business over recent months. **On our updated 2023 forecasts and on an EV/EBITDA multiple basis that gives a valuation of 4.36p per share. Discounted back to end 2021 at a rate of 12% gives a price of 3.47p per share.**

Peer analysis

Alongside EQTEC, the share prices of several other companies in the wider London listed alternative energy industry have slipped back from highs seen in the first few weeks of 2021. Taking this into account, we have again 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 annual revenue (£m)	Historic annual net profit/(loss) (£m)
ITM Power	2,087.00	176	1,911.0	3.3	-29.6
Ceres Power	1,677.50	283.2	1,394.3	21.7	-13.1
AFC Energy	379.7	67.6	312.1	0	-4.2
Inspired Energy	190.8	-18.8	209.6	46.1	6.9
Powerhouse Energy	152.6	15.2	137.4	0	-1.5
Good Energy	55.6	-34.6	90.2	130.6	0.4
Velocys	44.4	13.1	31.3	0.2	-9.6
Simec Atlantis Energy	22	-34.4	56.4	4.9	-20.7
Active Energy	20.5	7.7	12.8	1.3	-6.2

Name	Market Cap (£m)	Net cash/ (debt) (£m)	Enterprise value (£m)	Historic annual revenue (£m)	Historic annual net profit/(loss) (£m)
ITM Power	2,087.00	176	1,911.0	3.3	-29.6
Ceres Power	1,677.50	283.2	1,394.3	21.7	-13.1
AFC Energy	379.7	67.6	312.1	0	-4.2
Inspired Energy	190.8	-18.8	209.6	46.1	6.9
Powerhouse Energy	152.6	15.2	137.4	0	-1.5
Good Energy	55.6	-34.6	90.2	130.6	0.4
Velocys	44.4	13.1	31.3	0.2	-9.6
Simec Atlantis Energy	22	-34.4	56.4	4.9	-20.7
Active Energy	20.5	7.7	12.8	1.3	-6.2

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

ITM Power

We continue to note the discrepancy in valuations between EQTEC and ITM Power (ITM), the hydrogen specialist and highest valued alternative energy company on AIM. ITM recently announced a trading update for the end of April 2021, reporting work in progress of £35.4 million, contracts backlog of £154 million and tender pipeline of £607 million. Total revenues for the year are expected to be just £4 million with EBITDA losses expected to be in line with expectations. Cash at the period end was £176 million following last October's £165 million fund raise.

ITM's pipeline has increased substantially of late and at £607 million compares to EQTEC's last announced total potential pipeline value of €657 million (c.£564 million). But despite ITM's pipeline being only c.8% higher than EQTEC's the company currently commands a market cap and enterprise value both over 20 times higher. In addition, we note that ITM remains loss making, yet EQTEC is expecting to turn a maiden profit this financial year. While ITM is significantly better capitalised we do not believe that this goes to remotely justify the valuation discrepancy here.

Powerhouse Energy

EQTEC's closest listed peer in terms of technology and markets remains sustainable hydrogen company Powerhouse Energy (PHE). Powerhouse does not report any commercial pipeline figures in the same way as ITM and EQTEC but recently announced that partner Peel is planning to develop its second waste plastic to hydrogen facility, using Powerhouse technology, at the Rothesay Dock on the north bank of the River Clyde, West Dunbartonshire. The facility will be the second in the UK to use Powerhouse's DMG® technology after plans for a similar facility at Peel NRE's Protos site in Cheshire were approved in 2019. Also, in May, Powerhouse entered into non-binding Heads of Terms with Hydrogen Utopia International with a view to granting an exclusive non-transferable licence for the application of DMG® technology in Greece and Hungary.

Despite the lack of commercial pipeline figures, Powerhouse's enterprise value of £137.4 million compares with EQTEC's current EV of £82.24 million. We continue to 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 c.£147 million is implied for EQTEC, equating to 1.745p per share.

Conclusion

Prior to the latest fund raise EQTEC was at an inflection point in its development, having built up a substantial pipeline of opportunities to turn into commercial deals. With the funds now available to accelerate key projects, this sets the stage for rapid revenue growth over the next few years from a number of different sources.

Over the coming months we await news on the key Billingham project in the UK which we expect to be a major contributor to revenues next year and which should act as a reference case for further RDF plants in the UK and abroad. Meanwhile in Italy, the waste-to-energy plant in Tuscany looks set to be contributing to revenues early next year and its role as a Market Development Centre will act to showcase what EQTEC can do in an operational setting to prospective partners and customers.

The greatest risk to our forecasts being met remains the potential for projects to be delayed, as we saw in 2020 following Covid-19 related restrictions limiting site visits and forest fires in California. That said, the vast pipeline provides the potential to offset any further project delays and perhaps surprise on the upside over the next two to three years. Following the revision of our forecasts we update coverage of EQTEC with a target price of 3.47p and stance of **Conviction Buy.**

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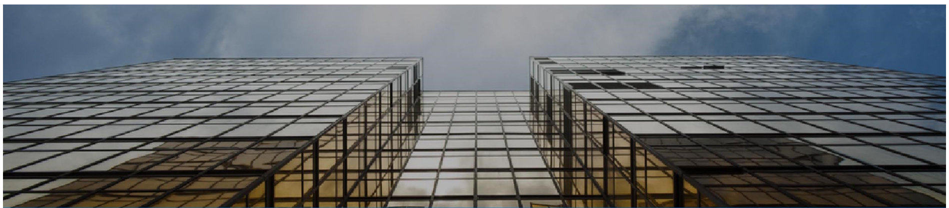

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