

Fluence Corporation

Q1 results

Exceptional bookings growth

In a typically quiet quarter, Fluence enjoyed exceptional bookings. Aside from the US\$188m CES (custom engineered solution) win in Ivory Coast, it also secured a \$20m contract in Egypt and a further ITEST deal. Revenue rose 20% y-o-y and the gross cash balance was \$24m (\$14.7m outflow). Forecasting CES deals are hard and we trim FY19 sales by 10% to reflect a more cautious view on further big wins boosting FY19 numbers, but the company still expects EBITDA breakeven during Q419 and FY20 estimates are substantively unchanged. The share price implies an FY20 P/E of 8.6x.

Year end	Revenue (US\$m)	EBITDA* (US\$m)	EPS* (c)	EV/revenue (x)	EV/EBITDA (x)	P/E (x)
12/17	33.2	(23.6)	(7.0)	4.2	N/A	N/A
12/18	101.1	(8.5)	(2.5)	1.4	N/A	N/A
12/19e	152.0	(2.3)	(0.8)	0.9	N/A	N/A
12/20e	266.5	23.0	3.8	0.5	6.1	8.6

Note: *EBITDA and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Exceptional bookings growth, backlog of \$267m

Total bookings in Q1 were \$223m, a company record and more than all of 2018. This largely reflected a \$188m turnkey CES project to supply, treat and deliver water to Ivory Coast's capital city (see ['Landmark' €165m contract win](#)). However, Fluence also secured a \$20m contract through its IWSI joint venture to supply technology to an Egyptian desalination project. Total contracted backlog stood at \$267m at the end of Q1. Revenue was \$12.3m, down 69% q-o-q, but up 20% y-o-y.

Strategic priorities on track

Although no Smart Product Solutions (SPS) revenue figure was disclosed, Fluence confirmed it is on track to more than double revenue here in FY19 (\$44m+). Aspiral sales in China continue to ramp up, with an order for 40 more units from ITEST. The company also officially launched SUBRE, a version of its MABR technology, which can be retrofitted to existing (higher volume) wastewater treatment plants. Fluence expects annual recurring revenue to be c \$15m by Q120e (unchanged).

Order book and SPS underpins growth forecast

As with FY18, we expect FY19 growth to be strongly back-end loaded. However company commentary on order book recognition and SPS growth offers visibility on c \$134m of sales (Exhibit 1). A more prudent view on recognising further CES wins in FY19 trims FY19 sales by 10% and EBITDA and y/e cash balance fall by \$3.8m and \$4.9m respectively (Exhibit 2). Our SPS and FY20 forecasts are unchanged.

Valuation: Growth prospects not priced in

At the end of a seasonally low quarter with large projects ramping in Q4 it is difficult to accurately gauge financial performance. Nevertheless, SPS and recurring revenue growth remains on track and the Ivory Coast win shows Fluence's ability to secure large, complex turnkey custom solutions. We forecast over 50% organic revenue growth in both FY19 and FY20, yet the shares are rated at just 8.6x adjusted FY20 EPS. A DCF approach reflecting the growth and margins we believe Fluence is ultimately capable of suggests an A\$0.75 per share valuation, c 60% above the current share price.

General industrials

2 May 2019

Price **A\$0.47**

Market cap **A\$253m**

US\$/A\$0.702

Net cash (US\$m) at end 2018 38

Shares in issue 538m

Free float 60%

Code FLC

Primary exchange ASX

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (12.1) 30.6 11.9

Rel (local) (14.4) 19.8 5.6

52-week high/low A\$0.56 A\$0.30

Business description

Fluence is a global supplier of water and wastewater treatment solutions. Its decentralised products provide municipal customers with 'plug and play' solutions that are quicker to deploy and substantially cheaper than traditional alternatives.

Next event

Q219 trading update July 2019

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Analysis of FY19 growth drivers and forecast changes

As with FY18, where Q1 revenue accounted for just 10% of the annual total, we expect FY19 growth to be strongly back-end loaded. Company commentary on the timing of revenue recognition from CES contracts secured during Q1 and the order book at the full year helps explain the sources of this growth. Coupled with guidance that SPS revenue will at least double to \$44m, this order book analysis provides some visibility on c \$134m of sales (Exhibit 1).

Exhibit 1: Analysis of FY19 growth drivers	
Indicator	\$m
Orders	
- Backlog @ y/e18 (Fluence has previously stated it expects nearly all the @ y/e18 backlog to be recognised in FY19)	58
- Ivory coast (total c.\$188m, \$20m is just the proportion just expected to be recognised in FY19)	20
- Egypt (majority of \$20m deal expected to be recognised in FY19)	12
Smart product (SPS) guidance ("at least")	44
Total (order backed + SPS forecast)	134
Implied new business	18
Edison FY19 forecast	152
Source: Edison	

Predicting the timing of new CES orders is never easy. Taking a more prudent view of further big wins boosting FY19 estimates, trims our FY19 sales by 10%. Nearly 90% of our estimate is supported by either existing orders or SPS growth – it implies just \$18m of “new business” recognised in FY19. Our lower forecast still implies 50% y-o-y growth in total revenue and our SPS forecasts remain unchanged. This lowers FY19 EBITDA and our forecast cash balance by \$3.8m and \$4.9m respectively. Our FY20 forecasts are substantively unchanged.

Exhibit 2: Changes to estimates						
\$m	FY19e			FY20e		
	Old	New	%	Old	New	%
Revenue (US\$m)	169.1	152.0	(10.1)	266.5	266.5	N/A
Adjusted EBITDA (US\$m)	1.5	(2.3)	N/A	23.0	23.0	N/A
Adjusted EPS (c)	(0.2)	(0.8)	N/A	3.8	3.8	(0.5)
Net cash	19.1	14.2	(25.5)	12.8	7.9	(37.9)
Source: Edison Investment Research						

Exhibit 2: Financial summary

	U\$m	2016	2017	2018	2019e	2020e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		0.8	33.2	101.1	152.0	266.5
Cost of Sales		(2.0)	(27.2)	(66.5)	(116.4)	(201.7)
Gross Profit		(1.2)	6.0	34.6	35.5	64.8
EBITDA		(8.8)	(23.6)	(8.5)	(2.3)	23.0
Operating Profit (before amort. and except).		(9.1)	(24.3)	(11.0)	(3.6)	20.4
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	0.0
Exceptionals		0.1	(1.2)	(52.7)	0.0	0.0
Share-based payments		0.0	0.0	0.0	0.0	0.0
Reported operating profit		(9.1)	(25.4)	(63.7)	(4.9)	20.4
Net Interest		(0.0)	2.6	0.5	0.3	0.2
Joint ventures & associates (post tax)		0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0	0.0
Profit Before Tax (norm)		(9.1)	(21.7)	(10.5)	(4.6)	20.6
Profit Before Tax (reported)		(9.1)	(22.9)	(63.2)	(4.6)	20.6
Reported tax		0.0	(0.7)	(0.4)	0.0	0.0
Profit After Tax (norm)		(9.1)	(22.4)	(10.9)	(4.6)	20.6
Profit After Tax (reported)		(9.1)	(23.6)	(63.6)	(4.6)	20.6
Minority interests		0	0	0	0	0
Discontinued operations		0	0	0	0	0
Net income (normalised)		(9.1)	(22.4)	(10.9)	(4.6)	20.6
Net income (reported)		(9.1)	(23.6)	(63.6)	(4.6)	20.6
Average Number of Shares Outstanding (m)		214	320	440	538	538
EPS - basic normalised (c)		(4.3)	(7.0)	(2.5)	(0.8)	3.8
EPS - diluted normalised (c)		(4.3)	(7.0)	(2.5)	(0.8)	3.8
EPS - basic reported (c)		(4.2)	(7.4)	(14.5)	(0.8)	3.8
Dividend per share (c)		0.0	0.0	0.0	0	0
Revenue growth (%)		N/A	N/A	204.7	50.3	75.4
Gross Margin (%)		N/A	18.0	34.2	23.4	24.3
EBITDA Margin (%)		N/A	N/A	N/A	(1.5)	8.6
Normalised Operating Margin		N/A	N/A	N/A	(3.2)	7.7
BALANCE SHEET						
Fixed Assets		3.2	72.7	43.8	45.2	46.6
Intangible Assets		2.1	60.2	5.6	5.6	5.6
Tangible Assets		1.0	7.1	14.8	16.2	17.6
Investments & other		0.1	5.5	23.4	23.4	23.4
Current Assets		24.4	131.9	97.7	174.6	182.2
Stocks		0.5	18.5	18.9	43.2	41.2
Debtors		0.7	26.7	33.5	95.4	111.2
Cash & cash equivalents		22.9	75.2	38.7	29.5	23.2
Other		0.3	11.5	6.5	6.5	6.5
Current Liabilities		(2.5)	(95.9)	(78.7)	(161.7)	(150.1)
Creditors		(1.4)	(27.8)	(47.5)	(92.6)	(82.4)
Tax and social security		0.0	(0.1)	(0.9)	(0.9)	(0.9)
Short term borrowings		0.0	(1.1)	(0.4)	(15.3)	(15.3)
Other		(1.1)	(66.9)	(30.0)	(52.9)	(51.5)
Long Term Liabilities		(1.0)	(5.1)	(11.7)	(11.7)	(11.7)
Long term borrowings		0.0	0.0	0.0	0.0	0.0
Other long term liabilities		(1.0)	(5.1)	(11.7)	(11.7)	(11.7)
Net Assets		24.1	103.6	51.1	46.5	67.1
Minority interests		0.0	0.2	1.2	1.2	1.2
Shareholders' equity		24.1	103.8	52.3	47.7	68.3
CASH FLOW						
Op Cash Flow before WC and tax		(8.8)	(23.6)	(8.5)	(2.3)	23.0
Working capital		1.7	(4.8)	(44.1)	(17.4)	(24.7)
Exceptional & other		0.0	0.2	0.1	0.0	0.0
Tax		0.0	(0.9)	(0.2)	(0.4)	(0.4)
Net operating cash flow		(7.2)	(29.0)	(52.6)	(20.1)	(2.1)
Capex		(0.4)	(3.7)	(2.8)	(4.0)	(4.0)
Acquisitions/disposals		(1.0)	50.6	(1.8)	0.0	0.0
Net interest		0.0	0.5	2.7	(0.1)	(0.2)
Equity financing		22.9	31.3	26.2	0.0	0.0
Dividends		0.0	0.0	0.0	0.0	0.0
Other		(0.2)	1.1	(2.4)	0.0	0.0
Net Cash Flow		14.2	50.8	(30.6)	(24.2)	(6.3)
Opening net debt/(cash)		(8.5)	(22.9)	(74.0)	(38.4)	(14.2)
FX		0.2	2.1	(4.3)	0.0	0.0
Other non-cash movements		0.0	(1.8)	(0.7)	0.0	0.0
Closing net debt/(cash)		(22.9)	(74.0)	(38.4)	(14.2)	(7.9)

Source: Fluence Corporation accounts, Edison Investment Research

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