

# Fluence Corporation

Q1 results

Good progress and guidance unchanged

**Q1 saw revenue substantially beat our estimates and EBITDA turn positive. Some regions and products have been affected by COVID-19, but FY20 sales guidance remains intact and we leave our numbers unchanged. The company is on track to receive a cash payment of over \$34m from its Ivory Coast contract in Q2. Receipt of this payment is not explicitly factored into our forecast and should address balance sheet concerns.**

Year end	Revenue (US\$m)	Adj EBITDA* (US\$m)	EPS* (c)	EV/revenue (x)	EV/EBITDA (x)	P/E (x)
12/17	33.2	(23.6)	(7.0)	4.3	N/A	N/A
12/18	101.1	(8.5)	(2.5)	1.4	N/A	N/A
12/19	61.3	(27.8)	(5.8)	2.3	N/A	N/A
12/20e	156.0	3.5	0.2	0.9	40.9	89.9

Note: \*Excludes acquired intangibles amortisation, exceptionals and share-based payments.

## Ivory Coast contract kicks in

Total revenue in Q1 of US\$47m (up nearly fourfold year-on-year) substantially beat our \$34m estimate. After achieving financial close on its Ivory Coast contract in January, Fluence recognised US\$34m in revenue from this project alone. This revenue helped turn the business EBITDA positive in Q1 and, with the associated cash payments expected in May, it should ensure it turns cash flow positive in Q2.

## Good progress in SUBRE

The highlight elsewhere was a US\$7m SUBRE order in Cambodia. Aside from being a big win for Fluence's latest (proprietary) technology, it also represents its biggest Smart Product Solutions (SPS) win outside China. Recurring revenue was \$3m (tracking ahead of the rate needed to deliver FY20 guidance of \$9m) and total orders were \$12.5m, up year-on-year despite COVID-19. The business is seeing weakness in Nirobox and delays to its contracts in Peru and San Quintin due to lockdowns. This has affected cash flow (Q1 cash burn of \$7.9m was higher than management had expected), but the overall effect has been modest.

## Guidance unchanged: On track despite COVID-19

Management reiterated FY20 guidance of SPS and recurring revenue above US\$32m and \$9m, respectively, and now expects over \$120m from Custom Engineering Solutions (CES) (ie total revenue of \$161m). With \$47m delivered in Q1, additional revenue from CES contracts plus SUBRE expected in H2, and a healthy (US\$228m) order backlog, Fluence appears on track. We leave our \$156m revenue forecast unchanged.

## Valuation: Long-term prospects justify upside

At A\$0.29 Fluence's share price is down 33% ytd and is close to record lows. It had US\$16.9m in cash available at the end of Q1, an unused credit facility of US\$47.9m earmarked for build, own, operate and transfer (BOOT) contracts and a further \$1.2m facility for general funding. Receipt of payments from the Ivory Coast in Q2 (more than US\$34m) should help alleviate concerns about its balance sheet. Recent wins in China and now Cambodia highlight the value of its technology. Our DCF-based valuation, which reflects this long-term potential, remains A\$0.57/share, and implies a doubling of the current price.

### General industrials

1 May 2020

**Price** **A\$0.29**

**Market cap** **A\$181m**

A\$1.52/US\$

Net cash (US\$m) at end FY19 19

Shares in issue 625m

Free float 60%

Code FLC

Primary exchange ASX

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs (6.7) (29.1) (39.8)

Rel (local) (14.8) (9.8) (3.0)

52-week high/low A\$0.5 A\$0.3

### 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

Q220 trading update July 2020

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**Exhibit 1: Financial summary**

	US\$m	2016	2017	2018	2019	2020e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>						
Revenue		0.8	33.2	101.1	61.3	156.0
Cost of Sales		(2.0)	(27.2)	(67.4)	(42.0)	(114.7)
Gross Profit		(1.2)	6.0	33.7	19.3	41.3
Adj. EBITDA		(8.8)	(23.6)	(8.5)	(27.8)	3.5
Operating Profit (before amort. and except).		(9.1)	(24.3)	(11.0)	(30.4)	0.9
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	0.0
Exceptionals		0.1	(1.2)	(51.9)	1.3	0.0
Share-based payments		0.0	0.0	0.0	0.0	0.0
Reported operating profit		(9.1)	(25.4)	(62.9)	(29.1)	0.9
Net Interest		(0.0)	2.6	0.5	(0.5)	0.4
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)	(30.9)	1.3
Profit Before Tax (reported)		(9.1)	(22.9)	(62.4)	(29.6)	1.3
Reported tax		0.0	(0.7)	(0.4)	(2.0)	0.0
Profit After Tax (norm)		(9.1)	(22.4)	(10.9)	(32.9)	1.3
Profit After Tax (reported)		(9.1)	(23.6)	(62.8)	(31.6)	1.3
Minority interests		0	0	(0.2)	1.0	0
Discontinued operations		0	0	0	0	0
Net income (normalised)		(9.1)	(22.4)	(11.1)	(32.0)	1.3
Net income (reported)		(9.1)	(23.6)	(63.0)	(30.6)	1.3
Average Number of Shares Outstanding (m)		214	320	440	553	624
EPS - basic normalised (c)		(4.3)	(7.0)	(2.5)	(5.8)	0.2
EPS - diluted normalised (c)		(4.3)	(7.0)	(2.5)	(5.8)	0.2
EPS - basic reported (c)		(4.2)	(7.4)	(14.3)	(5.5)	0.2
Dividend per share (c)		0	0	0	0	0
Revenue growth (%)				204.7	(39.4)	154.5
Gross Margin (%)		-147.5	18.0	33.3	31.4	26.5
EBITDA Margin (%)		(1,089.3)	(71.1)	(8.4)	(45.3)	2.2
Normalised Operating Margin		(1,126.1)	(73.1)	(10.9)	(49.6)	0.6
<b>BALANCE SHEET</b>						
Fixed Assets		3.2	72.7	44.1	46.6	41.9
Intangible Assets		2.1	60.2	5.6	6.0	5.6
Tangible Assets		1.0	7.1	14.8	14.2	12.9
Investments & other		0.1	5.5	23.7	26.4	23.4
Current Assets		24.4	131.9	97.7	87.6	93.8
Stocks		0.5	18.5	18.9	12.6	18.7
Debtors		0.7	26.7	33.5	39.8	58.0
Cash & cash equivalents		22.9	75.2	38.7	21.9	8.0
Other		0.3	11.5	6.5	13.3	9.1
Current Liabilities		(2.5)	(95.9)	(80.1)	(72.6)	(91.6)
Creditors		(1.4)	(27.8)	(48.8)	(43.8)	(37.4)
Tax and social security		0.0	(0.1)	(0.9)	(0.0)	(0.9)
Short term borrowings		0.0	(1.1)	(0.4)	(0.9)	(1.3)
Other		(1.1)	(66.9)	(30.0)	(27.9)	(52.0)
Long Term Liabilities		(1.0)	(5.1)	(10.7)	(14.5)	(13.7)
Long term borrowings		0.0	0.0	0.0	(2.0)	(2.0)
Other long term liabilities		(1.0)	(5.1)	(10.7)	(12.5)	(11.7)
Net Assets		24.1	103.6	51.1	47.1	30.4
Minority interests		0.0	0.2	(1.2)	(1.1)	(1.2)
Shareholders' equity		24.1	103.8	49.9	46.0	29.2
<b>CASH FLOW</b>						
Op. Cash Flow before WC and tax		(8.8)	(23.6)	(8.5)	(27.8)	3.5
Working capital		1.7	(4.8)	(44.1)	(7.9)	(13.2)
Exceptional & other		0.0	0.2	0.1	(0.1)	0.0
Tax		0.0	(0.9)	(0.2)	(0.5)	(0.4)
Net operating cash flow		(7.2)	(29.0)	(52.6)	(36.3)	(10.1)
Capex		(0.4)	(3.7)	(2.8)	(1.1)	(2.2)
Acquisitions/disposals		(1.0)	50.6	(1.8)	0.9	0.0
Net interest		0.0	0.5	2.7	(0.3)	0.0
Equity financing		22.9	31.3	26.2	24.5	0.0
Dividends		0.0	0.0	0.0	0.0	0.0
Other		(0.2)	1.1	(2.4)	(6.2)	0.0
Net Cash Flow		14.2	50.8	(30.6)	(18.5)	(12.3)
Opening net debt/(cash)		(8.5)	(22.9)	(74.0)	(38.4)	(19.0)
FX		0.2	2.1	(4.3)	(0.9)	(1.6)
Other non-cash movements		1.0	(1.8)	(0.7)	(0.0)	(0.4)
Closing net debt/(cash)		(22.9)	(74.0)	(38.4)	(19.0)	(4.7)

Source: Company accounts, Edison Investment Research

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