Leclanché

Delay to formation of cell manufacturing JV

Update on strategic restructuring

Renewable energy

Leclanché is not proceeding with the agreements with Eneris announced in June to create two JVs: one manufacturing battery cells, the other assembling battery modules. Instead it is in discussions with key customers as well as Eneris to form a JV manufacturing up to 2.4GWh of battery cells annually. Our estimates remain under review until there is greater visibility regarding this JV.

Year end	Revenue (CHFm)	EBITDA* (CHFm)	PBT* (CHFm)	EPS (CHF)	DPS (CHF)	P/E (x)
12/17	18.0	(31.1)	(37.8)	(0.68)	0.00	N/A
12/18	48.7	(36.9)	(47.8)	(0.62)	0.00	N/A
12/19	16.3	(57.5)	(71.5)	(0.53)	0.00	N/A
12/20e	N/A	N/A	N/A	N/A	N/A	N/A

Note: *Adjusted for exceptional items, amortisation of acquired intangibles and share-based payments.

Capital-light model for production maintained

In June 2020, Leclanché announced that its cell manufacturing plant in Germany and module assembly facility would be transferred to two JVs, which would continue to supply Leclanché with cells and modules as required. JV partner Eneris was expected to invest more than CHF53m in the JVs to expand capacity and provide up to CHF42m in working capital as a loan directly to Leclanché. Eneris has not been able to provide this finance, so Leclanché is working with key customers that may become shareholders in a battery cell manufacturing JV alongside Eneris. Leclanché's majority shareholder FEFAM has agreed to provide up to CHF34m in working capital as an interim measure and to convert CHF50.9m of debt to equity. Golden Partner will convert CHF10.7m of fees to equity. Collectively, these actions will reduce debt to c CHF15m but will result in the issue of around 97m additional shares (c 61% of outstanding capital), and raise FEFAM and related party Golden Partner's shareholdings from 68.2% to 79.4%.

Creation of standalone operating companies

Management is reorganising the group's operating model so that the eTransport Solutions business unit, which is focused on the electrification of fleet vehicles and marine vessels, and the Stationary Storage Solutions business unit, which is focused on utility-scale battery energy storage systems, become standalone operating companies. The Stationary Storage Solutions company will move to a build-own-operate (BOO) model, as described in our June update note. New investors will be able to take a direct stake in either of these companies. In parallel, management is either selling the non-core Speciality Battery Systems business unit or transferring it to a separate JV.

Valuation: Awaiting progress on JV

Our valuation and estimates remain under review until there is greater clarity on the business reorganisation and the formation of the JV.

15 September 2020

Price	**CHF0.60**
Market cap	**CHF96m**

Net debt (CHFm) at end December 2019 (including CHF31.0m convertible debt)	41.7
Shares in issue (before conversion of debt-to-equity)	160.3m
Free float (before conversion of debt to equity)	31.8%
Code	LECN
Primary exchange	SIX
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(2.0)	(25.6)	(62.2)
Rel (local)	(4.7)	(30.3)	(63.6)
52-week high/low		CHF1.62	CHF0.50

Business description

Leclanché is a fully vertically integrated energy storage solution provider. It delivers a wide range of energy storage solutions for homes, small offices, large industries and electricity grids, as well as hybridisation for mass transport systems such as bus fleets and ferries.

Next events

H120 result	September 2020

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Formation of cell production JV

Capacity constraints limiting growth in e-transport

Leclanché has been successful in winning contracts to develop energy storage systems for e-transport applications. For example, its memorandum of understanding with Bombardier Transportation, which covers around 10 different railway projects, is potentially worth more than €100m over a five-year period. With regards to the e-marine sector, as of September 2019 the combined value of purchase orders related to projects for delivery between 2019 and 2021 exceeded CHF35m, with over CHF50m of orders in the final stages of negotiation or contracting. This shows there is demand from this sector as well, with customers including Kongsberg Maritime. Moreover, the technology is proven, with e-transport systems from the group having completed more than 36,000km of marine run time and more than 700,000km of road run time. However, a lack of financing has severely limited the group's ability to increase the volume of battery cells it can produce in-house, preventing it from maximising the opportunities presented by the decarbonisation of the transport sector.

Formation of manufacturing JV

The capital expenditure required to expand battery cell production to 2.4GWh/year in two phases is more than CHF110m. Noting that a Volvo electric bus has a 76 kWh lithium-ion battery and the Ellen e-ferry had a 4.3MWh battery pack, this represents sufficient annual capacity for 32 thousand buses or over 500 similar size ferries. The potential transfer of ownership of Leclanché's cell production facility in Germany to a manufacturing JV which has a consortium of key e-mobility customers and Eneris as its backers provides a mechanism for funding the capacity increase without being dilutive for existing shareholders. The potential transfer to a JV could also reduce Leclanché's operating costs by up to 20%.

Interim financing from FEFAM

Under the terms of the various agreements signed in June, Eneris was to provide up to CHF42m in working capital as a loan directly to Leclanché. This was intended to supplement the convertible loan facility of up to US$40m (c CHF39m) agreed with US-based investment firm Yorkville Advisors, which was announced in February 2020. The initial CHF2.9m tranche of this was drawn down in February, followed by a second tranche of CHF0.7m in June and a third tranche of CHF0.9m in August. Leclanché's majority shareholder FEFAM has stepped into the gap and will provide up to CHF34m in working capital as an interim measure.

Creation of standalone operating companies

Management is reorganising the group's operating model so it is composed of two standalone, independently investable operating companies. These are based on the former eTransport Solutions business unit, which provides energy storage systems for buses, trains and marine vessels, and the former Stationary Storage Solutions business unit, which provides utility scale battery energy storage systems. The module manufacturing operation, which is located in Switzerland, will become part of the new eTransport company. The smaller, non-core Speciality Battery Systems business, which is located in Switzerland and is loss-making, will either be sold or transferred to a separate JV.

Exhibit 1: Segmental information

CHFm	eTransport		Stationary Solutions		Speciality	
	FY19	FY18	FY19	FY18	FY19	FY18
Revenue	2.1	0.8	7.8	36.2	6.0	6.9
EBITDA	(21.1)	(3.6)	(25.4)	(12.4)	(5.6)	(2.3)
EBIT	(23.6)	(4.3)	(27.8)	(14.2)	(5.9)	(2.6)
Net assets	33.5	14.8	27.3	53.2	5.1	7.3

Source: Company data

Shift to build-own-operate model ongoing

Management is still in the process of creating a separate holding company, which will own the St Kitts solar farm and energy storage facility, and other BOO developments that have already been identified and will generate additional EBITDA. Leclanché will own the majority stake in this holding company and is in the process of securing equity finance from external investors. Subject to completing financing, management expects that this holding company will generate c CHF5m in annual EBITDA from the St Kitts project for a 20-year period from 2022 onwards. A large infrastructure fund in New York has already committed a construction loan of CHF46m, but management still has to secure the equity finance. If this is not obtained, the group will revert to merely providing engineering, procurement and construction services for the project, as it did for the 20MWhr Marengo energy storage project in Chicago that was commissioned in Q418.

The shift to a BOO model had an adverse impact on FY19 performance, preventing the group from recognising over CHF50m revenues, which would have enabled it to show revenue growth during FY19 rather than a drop from CHF48.7m in FY18 to CHF16.3m. However, the move makes the group less exposed to yearly variations in revenue associated with the completion of individual projects.

Exhibit 2: Financial summary

	CHFm	2017	2018	2019
Year-end Dec				
PROFIT & LOSS				
Revenue		18.0	48.7	16.3
Cost of Sales		(15.7)	(45.7)	(31.8)
Gross Profit		2.3	3.0	(15.5)
EBITDA		(31.1)	(36.9)	(57.5)
Operating Profit (before amort. and except.)		(35.3)	(39.9)	(63.7)
Amortisation of acquired intangibles		0.0	0.0	0.0
Share-based payments		(0.7)	(0.8)	(0.8)
Exceptionals		(0.1)	(1.3)	(10.8)
Operating Profit		(36.1)	(42.1)	(75.3)
Net Interest		(2.5)	(8.0)	(7.2)
Share of profits from JVs and associates		0.0	0.0	(0.5)
Profit Before Tax (norm)		(37.8)	(47.8)	(71.5)
Profit Before Tax (FRS 3)		(38.5)	(50.0)	(83.1)
Tax		0.1	(0.7)	(0.3)
Profit After Tax (norm)		(37.7)	(48.6)	(71.8)
Profit After Tax (FRS 3)		(38.5)	(50.7)	(83.4)
Minority interest		0.0	0.0	0.0
Net income (norm)		(37.7)	(48.6)	(71.8)
Net income (FRS 3)		(38.5)	(50.7)	(83.4)
Average Number of Shares Outstanding (m)		55.3	79.0	136.4
EPS - normalised (CHFc)		(68.3)	(61.5)	(52.6)
EPS - normalised fully diluted (CHFc)		(68.3)	(61.5)	(52.6)
EPS - FRS 3 (CHFc)		(69.6)	(64.2)	(61.1)
Dividend per share (CHFc)		0.0	0.0	0.0
BALANCE SHEET				
Fixed Assets		16.6	25.1	32.7
Intangible Assets		4.5	5.6	5.0
Tangible Assets and Deferred tax assets		12.1	19.5	27.7
Current Assets		52.1	62.2	40.4
Stocks		12.7	19.9	19.8
Debtors		32.8	33.9	19.1
Cash		6.6	8.4	1.5
Current Liabilities		(35.7)	(20.2)	(51.0)
Creditors including tax, social security and provisions		(20.6)	(14.8)	(31.7)
Short term borrowings		(15.1)	(5.4)	(19.3)
Long Term Liabilities		(22.1)	(48.7)	(34.8)
Long term borrowings		(13.3)	(37.5)	(23.9)
Retirement benefit obligation		(8.5)	(10.8)	(10.5)
Other long-term liabilities		(0.4)	(0.4)	(0.4)
Net Assets		11.0	18.4	(12.7)
Minority interest		0.0	0.0	0.0
Shareholders' equity		11.0	18.4	(12.7)
CASH FLOW				
Operating Cash Flow		(44.6)	(47.9)	(45.2)
Net Interest		(0.1)	(2.2)	(1.8)
Tax		0.0	(0.1)	(0.4)
Investment activities		(6.6)	(14.2)	(9.2)
Acquisitions/disposals		0.0	0.0	0.0
Equity financing and other financing activities		6.5	0.0	0.0
Dividends		0.0	0.0	0.0
Net Cash Flow		(44.7)	(64.4)	(56.7)
Opening net debt/(cash)		17.8	21.7	34.5
HP finance leases initiated		0.0	0.0	0.0
Other		(40.8)	(51.6)	(49.4)
Closing net debt/(cash)		21.7	34.5	41.7

Source: Company data

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