EDISON

Accsys Technologies

Updating estimates for FY22 results

FY22 results review

General industries

With its FY22 results at the end of June, Accsys provided guidance for FY23 to almost double EBITDA, mainly driven by new capacity. To fulfil the strong market demand for its high-performance wood products, Accsys aims to expand its capacity from 60,000m^3 to 200,000m^3 by 2025. However, the current two capacity expansions of 60,000m^3 in total faced difficulties during commissioning, resulting in delays of a few months. We have lowered our estimates, incorporated prudent cost buffers for future projects and adjusted some of our assumptions within our DCF valuation.

Year end	Revenue (€m)	EBITDA* (€m)	Net profit* (€m)	EPS* (€)	EV/sales (x)	EV/EBITDA (x)
03/21	99.8	10.1	1.3	0.01	3.7	36.8
03/22	120.9	10.4	2.1	0.01	3.3	38.2
03/23e	153.9	20.0	9.1	0.04	2.1	16.5
03/24e	189.3	33.4	19.1	0.09	1.6	9.1

Note: *EBITDA, net profit and EPS are normalised, excluding amortisation of acquired intangibles and exceptional items.

Price increases offset higher input costs in FY22

Accsys's FY22 revenues (ending 31 March) increased 21% y-o-y to €121m, largely driven by price increases, while volumes were down slightly due to capacity restraints and a temporary plant stop related to the construction of the fourth reactor in Arnhem. Several price increases offset higher input costs in FY22, resulting in an increase in normalised EBITDA of 3% y-o-y. For FY23, Accsys expects an acceleration in revenue growth from H223, driven by new capacity coming on stream, and EBITDA to nearly double from the level of €10.4m in FY22.

Capacity expansion delayed by a few months

On 30 June 2022, Accsys announced delays of a few months in the construction of both the fourth reactor in Arnhem and the Tricoya plant in Hull. There will be additional cost overruns of €1m in Arnhem and €4–7m in Hull, of which only the rework costs in Arnhem may be recoverable, according to management. We have lowered our estimates for the coming years following these delays. We still expect Accsys to be on track to realise its targeted capacity of 200,000m^3 by 2025 and, at current price levels, we estimate potential revenues of more than €325m at full capacity (versus €121m in FY22).

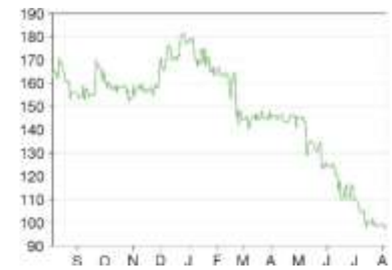
Valuation: DCF offers upside

Accsys is trading on an EV/sales multiple of 2.1x and EV/EBITDA of 16.5x in FY23e. Our DCF model is now based on four reactors in Arnhem and one in Hull (down from previously two, as this one is not in Accsys's stated strategy for 2025), while we add a separate value for the Accoya US joint venture (for 100% as it is under construction) and the Tricoya project in Malaysia (for only 50% as that project has yet to be committed). We have added cost contingency of €10m to the DCF of the plant in the US, to reflect our view of a prudent cost buffer given the nature of the projects and the company's recent challenges on its projects. These new assumptions point to a value of €1.83 per share (previously €1.95).

5 August 2022

Price	**99p/€1.20**
Market cap	**£204m/€248m**
	€1.19/£
Net debt (€m) at 31 March 2022	27.2
Shares in issue	206.6m
Free float	35%
Code	AXS
Primary exchange	LSE
Secondary exchange	Euronext Amsterdam

Share price performance



%	1m	3m	12m
Abs	(9.5)	(31.8)	(39.5)
Rel (local)	(12.9)	(31.3)	(40.0)
52-week high/low		181p	98p

Business description

Accsys Technologies is a chemical technology company focused on the development and commercialisation of a range of transformational technologies based on the acetylation of solid wood and wood elements for use as high-performance, environmentally sustainable construction materials.

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Edison profile page

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FY22 revenue growth driven by price increases

Accsys's FY22 results were broadly in line with the trading update released on 25 May 2022. Revenues increased 21% y-o-y to €121m, fully driven by higher prices. Accsys has raised its sales prices over the past year and this has offset the higher raw material costs, particularly for acetyls (due to the steep price increase in natural gas). Revenues from Accoya wood rose 15% to €105m (price driven) and revenues from the by-product acetic acid jumped 134% y-o-y to €13.6m (also price driven). The balance of the €120.9m group revenue came from Accoya licence revenue of €0.4m (FY21: 0.4m) and Tricoya sales of €1.5m (FY21: €2.1m).

Exhibit 1: FY22 results (ending 31 March 2022)

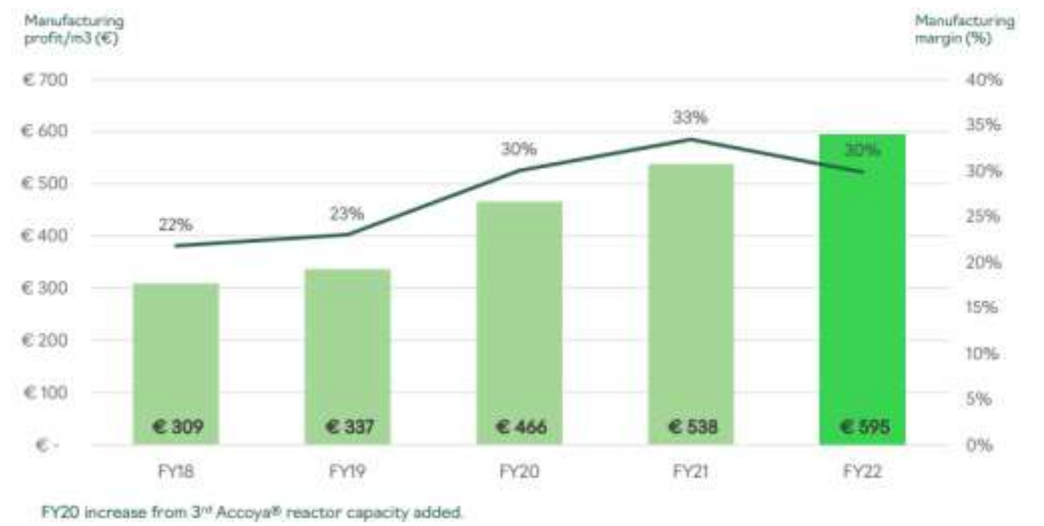
€m	FY21	FY22	Change y-o-y
Revenues	99.8	120.9	21%
Accoya wood volumes, m^3	60,466	59,649	-1.4%
Gross margin	33.2%	29.8%	
EBITDA normalised	10.1	10.4	3%
Net profit normalised	1.3	2.1	63%

Source: Accsys

Despite strong underlying demand, group volumes declined 1.4% y-o-y to 59,649m³, due to capacity restraints and a temporary plant stop in connection to the installation of the fourth reactor (as communicated on 25 May). Sales of wood to Medite and Finsa for the manufacture of Tricoya panels were down 19% y-o-y, representing 22% of total volumes (FY21: 26%), driven by an overall shift in the end-market mix at the Arnhem plant, which is at capacity. Volumes to Accoya customers increased 5% y-o-y with a strong increase in volumes to the US for market seeding of the new Accoya plant, which could be operational in mid-2024.

As expected, the gross margin declined 340bp y-o-y to 29.8%, mainly due to a threefold mix effect: (1) the first contribution of Accoya Colour, which is priced around 25% higher than traditional Accoya, (2) lower wood volumes to Medite and Finsa, which have lower prices compared to the wood for Accoya customers, and (3) lower tolling volumes (when customers supply their own wood instead of Accsys). Exhibit 2 shows the development in gross margin and also the steady increase in manufacturing gross profit per cubic metre, which recently has been largely price driven.

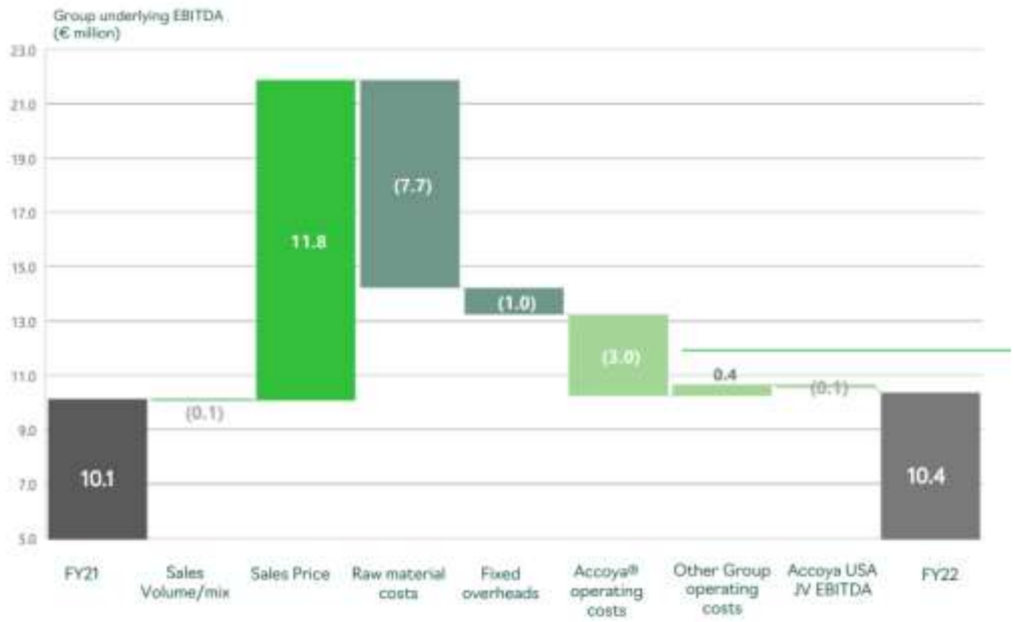
Exhibit 2: Gross margin development



Source: Accsys

Underlying EBITDA increased 3% in FY22 to €10.4m, with higher sales prices offsetting the higher input costs (see Exhibit 3). Normalised net profit was higher compared to FY21, mainly driven by lower interest expenses (with the group overall debt refinance in H2 of FY22) and lower taxes.

Exhibit 3: EBITDA development



Source: Accsys

Total investments increased from €13.4m in FY21 to €49.1m in FY22, of which the largest part was for the new projects, that is Arnhem (€24.7m), Hull (€18.4m) and the joint venture in the United States (€3.8m). As previously indicated on 25 May, net debt was up €15m to €27m, or €55m when adjusted for €28m of committed investments in Q123 for the Accoya joint venture in the United States. On 25 May 2022, Accsys raised new capital of €19m (net of costs), to cover cost overruns and the anticipated higher working capital for the increased capacity.

Slightly lower estimates due to delays in new capacity

Demand for Accoya and Tricoya remains strong, according to management, but Accsys is still facing capacity restraints ahead of the planned capacity expansion later this year. On 30 June 2022 the company announced further delays in the expansion of its capacity. During commissioning of the fourth reactor in Arnhem in June, some defective equipment was identified, which required remedial repair work, delaying the finalisation of the project by about eight weeks until July–September. This will also result in €1m in additional costs, which might be recoverable according to management. Accsys still anticipates a two-year ramp-up for the fourth reactor, bringing full capacity in Arnhem to 80,000m³. The first Tricoya plant in Hull was planned to be operational in July/August, but in June construction challenges and rework of certain areas were identified, resulting in further delays, with the company now targeting completion in the coming months. This will result in additional costs of €4–7m, which are not recoverable according to management. On 25 May, the company stated that the Hull plant needed additional funding of €3m and these new cost overruns of €4–7m will also need funding and Accsys is currently in negotiation with its consortium partners. One of the options is that Accsys extends its current loan of €17m to Tricoya UK.

Accsys provided FY23 guidance on 30 June 2022. Revenue growth should accelerate from the second half driven by new capacity. Once the new projects in Arnhem and Hull are operational, capacity will have doubled to 120,000m³. Price increases in January and June should form a cushion for the input pressure, while Accsys has also introduced an energy price premium from May 2022 (to mitigate the effects of volatile gas prices, which affect the acetyl raw material costs). Given this stronger revenue growth, Accsys expects to nearly double its EBITDA in FY23 (versus

€10.4m last year). On 25 May, Accsys commented that a total project capex investment of €57m will fall in FY23, being largely the finalisation of the fourth reactor in Arnhem (€8–9m), the finalisation of the Hull plant (€15m) and the investment commitment of €28m for the Accoya US joint venture, for which the capital was raised in May 2021. More than 90% of the planned capex is expected to fall in the first half.

We have lowered our expected revenues for FY23 and FY24 due to the delays in Arnhem and Hull, but still expect increases of 28% y-o-y and 23% y-o-y respectively, driven by the additional capacity and pricing. Gross margin should recover in FY23, driven by price increases and increased scale, with a further increase in FY24 due to mix effects, as Tricoya potentially carries a 40% gross margin versus the 30% for Accoya. For the same reasons, we have lowered our EBITDA forecasts but still expect a doubling of EBITDA in FY23, in line with company guidance. We expect further revenue growth and scale benefits will boost EBITDA to €33.4m in FY24, delivering a margin of almost 18%.

Exhibit 4: Change in P&L estimates

€m	FY22			FY23e			FY24e		
	Old	Actual	Change	Old	New	Change	Old	New	Change
Sales	121.1	120.9	-0.2%	156.7	153.9	-1.8%	194.5	189.3	-2.7%
Gross margin	29.6%	29.8%		30.8%	30.4%		32.7%	32.7%	
EBITDA normalised	10.4	10.4	0.1%	21.6	20.0	-7.4%	35.1	33.4	-5.0%
EBITDA margin	8.6%	8.6%		13.8%	13.0%		18.1%	17.6%	
Net profit (reported)	2.1	2.4	11.3%	8.8	9.1	2.9%	18.8	19.1	1.8%
Net profit (normalised)	2.3	2.1	-7.6%	8.8	9.1	2.9%	18.8	19.1	1.8%

Source: Edison Investment Research

Management again stated that the strategy to expand its total capacity to 200,000m^3 by 2025 is on track, which we summarise in Exhibit 5. We have moved up the timing of new capacity in the United States and Malaysia both by one quarter, anticipating small delays in both projects.

Exhibit 5: Accsys's capacity plans

Location	Capacity m^3	Timing of capacity	Potential revenues, €m
Arnhem, the Netherlands	80,000	July–Sept 2022	160
Hull, UK	40,000	Sept–Oct 2022	40
Kingsport, US	43,000	Q2–Q3 2024	86
Malaysia (as example of second Tricoya plant)	40,000	mid 2025	40
Total	**203,000**		**326**

Source: Accsys, Edison Investment Research

Lower valuation on adjusted DCF assumptions

For the valuation of Accsys we use a discounted cash flow (DCF) model as there are no other listed companies with a business profile close to that of Accsys. Accsys is valued at EV/sales of 2.1x and EV/EBITDA of 16.5x in FY23e. We now include four reactors in the Arnhem plant and only one in Hull (we previously assumed two in Hull, but this is not part of the company's stated strategy for 2025). We use a DCF for the valuation of a separate Accoya and Tricoya plant and add a value for the Accoya plant in the US, which is expected to be operational in mid-2024. We also add a value for the Tricoya plant in Malaysia (or an alternative location) with a probability rate of only 50% as that project has yet to be committed. The investment decision will be taken after the Tricoya plant in Hull has been operational for at least six months (now delayed until Q1/Q2 2023).

We have changed our DCF assumptions from those detailed in our update note of 15 June. We have lowered the terminal EBIT margin from 18% to 17% (as we now assume one reactor in Hull instead of two) and we prudently have added an allowance of €10m for the risk of cost overruns for the Accoya plant in the US, although the Engineering, Procurement and Construction contract has a fixed cap and capex items have been ordered early to lock in cost pricing. On these new assumptions, our DCF suggests a fair value of €1.83 per share (previously €1.95).

Exhibit 6: Financial summary

€m	FY20	FY21	FY22	FY23e	FY24e
31-March	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue (reported)	90.9	99.8	120.9	153.9	189.3
Gross Profit	27.5	33.1	36.0	46.8	61.9
EBITDA normalised	7.0	10.1	10.4	20.0	33.4
EBITDA reported	10.0	10.2	10.3	20.0	33.4
Depreciation & Amortisation	(5.6)	(5.7)	(6.2)	(8.1)	(8.4)
EBIT normalised	1.4	4.4	4.2	12.0	25.0
Exceptionals (Edison definition)	3.0	0.1	(0.1)	0.0	0.0
EBIT reported	4.4	4.5	4.1	12.0	25.0
Net Interest	(2.9)	(4.1)	(2.3)	(3.0)	(3.5)
Results of associates	0.0	(0.1)	0.0	0.0	0.0
Profit Before Tax	1.5	0.3	1.8	9.0	21.5
Reported tax	(0.6)	(1.3)	(1.0)	(0.9)	(2.2)
Profit After Tax	0.9	(0.9)	0.7	8.1	19.4
Minority interests	1.5	1.4	1.6	1.0	(0.3)
Net profit (normalised)	(1.1)	1.3	2.1	9.1	19.1
Net profit (reported)	2.4	0.3	2.4	9.1	19.1
Average number of shares (m)	132.7	164.9	178.9	204.3	206.6
Average number of shares, diluted (m)	145.8	173.3	185.9	211.3	213.6
EPS normalised (€)	(0.01)	0.01	0.01	0.04	0.09
EPS normalised diluted (€)	(0.01)	0.00	0.01	0.04	0.09
EPS reported (€)	0.02	0.00	0.01	0.04	0.09
DPS (€)	0.00	0.00	0.00	0.00	0.00
Revenue growth	21.0%	9.8%	21.1%	27.4%	23.0%
Gross Margin	30.3%	33.2%	29.8%	30.4%	32.7%
Normalised EBITDA Margin	7.7%	10.1%	8.6%	13.0%	17.6%
Normalised Operating Margin	1.5%	4.4%	3.5%	7.8%	13.2%
Reported EBIT margin	4.8%	4.5%	3.4%	7.8%	13.2%
BALANCE SHEET					
Fixed Assets	137.6	155.6	195.3	244.3	240.7
Intangible Assets	11.0	10.9	10.8	10.8	10.8
Tangible Assets	126.7	144.4	181.3	230.3	226.8
Investments & other	0.0	0.3	3.2	3.2	3.2
Current Assets	69.8	72.5	79.8	66.2	100.9
Stocks	16.9	12.3	20.4	25.9	31.9
Debtors	8.6	9.8	13.2	15.1	16.7
Other current assets	7.0	2.8	4.2	5.2	6.3
Cash & cash equivalents	37.2	47.6	42.1	19.9	46.0
Current Liabilities	24.0	42.3	45.7	50.6	58.4
Creditors	7.8	9.5	16.7	19.1	23.0
Other current liabilities	10.9	22.2	16.4	18.8	22.7
Short term borrowings	5.3	10.6	12.7	12.7	12.7
Long Term Liabilities	56.3	49.2	56.5	56.5	56.5
Long term borrowings	56.3	49.2	56.5	56.5	56.5
Other long term liabilities	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	127.1	136.6	172.9	203.4	226.7
Minority interests	34.4	37.2	35.5	35.5	35.5
Balance sheet total	207.4	228.1	275.1	310.5	341.6
CASH FLOW					
Op Cash Flow before WC and tax	10.0	10.2	10.3	20.0	33.4
Working capital	(8.3)	8.3	(9.2)	(3.7)	(0.8)
Exceptional & other	(2.8)	(1.9)	(1.5)	3.5	4.0
Tax	0.2	0.1	0.1	(0.9)	(2.2)
Net interest	3.4	3.4	2.9	(3.0)	(3.5)
Net operating cash flow	2.4	20.1	2.6	15.9	30.8
Capex	(22.6)	(13.4)	(49.1)	(57.0)	(4.8)
Acquisitions/disposals	0.0	0.0	0.0	0.0	0.0
Equity financing	52.5	9.4	34.9	19.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Other	(8.6)	(3.9)	(3.3)	0.0	0.0
Net Cash Flow	23.7	12.1	(14.9)	(22.1)	26.1
Opening net debt/(cash), including lease	48.1	24.3	12.2	27.2	49.3
Closing net debt/(cash), including lease	24.3	12.2	27.2	49.3	23.2

Source: Accsys Technologies, Edison Investment Research

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