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Price (p)	3.0
Shares in issue (m)	3,515
Mkt Cap (£m)	105
Net debt (£m)	0
EV (£m)	105
BVPS (p)	0.1

Share price performance

1m	-17.1%
3m	-23.0%
12m	656.3%
12 m high/low	4.6/0.3
Ave daily vol (30d)	9,311,276

Shareholders

Hargreaves Lansd'n	18.0%
Josh White	9.7%
Interactive Investor	7.2%
Ben White	6.4%
Serena WhiteReyes	5.4%
Howard White	4.6%
John Hall	3.2%
Barclays Direct	3.2%
Vidacos Noms	3.1%
Total for top 9	60.8%
Free float	72.2%

Next news Prelims Q3

Business description

Waste to hydrogen technology



FUNDING SECURED

The securing of funding to take Powerhouse Energy to profitability and to advance its overseas development is a positive outcome in our view. While the dilution is more than we had originally factored in, the greater amount raised increases the possibility of higher valuations on the back of international growth. Our UK only base valuation falls to 5.0p from 6.0p but factoring some international progress would take this to 6.9p.

£5m fund raising secured with more to follow

Powerhouse Energy has successfully raised £5m from institutional and public investors and also from Peel Holdings, with the latter investing £1m in the company. Peel, through Peel Environmental, is the UK development partner for Powerhouse's waste to hydrogen DMG technology. Peel has also been given an option to invest a higher sum post the financial close of the Protos project. The initial fund raise will give the company sufficient cash to move into profitability. The raise is priced at 2.5p and both shares and warrants will be issued under existing authority granted at the 2019 AGM.

Peel warrant to invest a further £10.2m

The option is a warrant issued to Peel to acquire 10% of the issued share capital of the company at a 10% premium to the current raise (2.75p) with subscription within two years. Exercise must be within 6 months of the financial close of the Protos energy project, the first commercial deployment of the DMG technology. We now expect this to be concluded in FY 21 and the warrant exercise should net Powerhouse over £10m in additional equity.

Higher raise advances international opportunities

We had factored in a slightly smaller initial raise and had not expected the Peel option so the overall dilution will be a little higher and we have scaled back our base case valuation to 5.0p from 6.0p as a result. This includes a more conservative assumption on the timing of Protos. However, we see the raise as a material de-risking and we also see the Peel investment as further confirmation of the viability of the business model from a party closely involved in the project. The higher sum raised will allow Powerhouse to advance its development strategy outside the UK. It has live opportunities in Australia, Japan and Thailand and we value success in these markets as potentially adding 1.9p to our diluted valuation, giving a visible expansion valuation of 6.9p.

£,000 Dec	2018a	2019a	2020e	2021e	2022e	2023e
Sales	0	0	700	3,342	5,788	9,497
EBITDA	-2,494	-1,704	-900	-419	1,267	3,029
PBT	-2,495	-1,706	-897	-313	1,644	3,431
EPS	-0.2	-0.1	0.0	0.0	0.0	0.1
CFPS	-0.1	0.0	0.0	0.0	0.0	0.0
DPS	0.0	0.0	0.0	0.0	0.0	0.0
Net Debt (Cash)	-841	-104	-3,533	-12,569	-13,409	-15,621
Debt/EBITDA	0.3	0.1	3.9	30.0	-10.6	-5.2
P/E	-19.8	-38.1	-125.3	-395.1	75.2	36.0
EV/EBITDA	-42.3	-62.4	-118.1	-253.8	83.8	35.1
EV/sales	#DIV/0!	#DIV/0!	151.8	31.8	18.4	11.2
FCF yield	-4.1%	-1.3%	-1.4%	-1.0%	0.4%	1.5%
Div yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

FINANCIALS

FORECAST CHANGES

We have factored in the fund raising and warrant exercise into our valuation with an assumption that the warrant exercise takes place in FY 21. We had already factored in an equity raise of £3m at 3p. The actual raise of £5m at 2.5p and the warrant exercise equating to £10.2m at 2.75p adds 571m shares to the total representing an increase of 16%. The value of the total £15.2m resulting cash inflow is that it stabilises the company financially and allows it to fully pursue its growth plans. In the UK this means the execution of the development plans with Peel Environmental and internationally the company can follow up on work in Australia, Japan and Thailand as well as exploring opportunities in additional territories.

Given the timing in the year we have also moved our assumed financial close date for the initial Peel project at the Protos Energy Park into FY 21 although this has a minimal impact on valuation with the impact on FY 20 PBT and EPS lost within rounding. The impact is greater in FY 21 with LBT at -£0.3m from -£0.1m although again the EPS is lost within rounding at -0.01p. We still expect the company to move into profitability in FY 22 with EPS at 0.04p, slightly down from 0.05p as a result of dilution.

VALUATION CHANGES

The impact on our DCF derived base case valuation is to move it to 5.0p from 6.0p principally as a result of dilution from the fundraising and warrant exercise. If we factor in expansion in Australia and Japan, our valuation moves to 6.9p. This was 9.0p before dilution and project timing changes, but we believe there is now a better chance of this valuation being achieved as a result of the new funding. Finally our wider international expansion valuation moves to 11.2p from 15.3p but again with a higher chance of success thanks to more funding being available.

RISKS

The key risks to our valuations are financial risks in securing project financing for the build out of projects. We see the project finance market as remaining competitive and think this mitigates this risk. There is also execution risk in completing and operating the project where failure could limit the roll out of further projects. However the DMG technology has been tested successfully and its modular approach avoids the scale up issues seen with similar technologies elsewhere.

FINANCIAL MODEL

Profit and Loss Account

£ '000, DEC	2018a	2019a	2020e	2021e	2022e	2023e
Turnover						
WTE	0	0	700	3,342	5,788	9,497
Other	0	0	0	0	0	0
Other	0	0	0	0	0	0
Other	0	0	0	0	0	0
Total	0	0	700	3,342	5,788	9,497
Operating profit						
WTE	-2,495	-1,705	-900	-419	1,267	3,029
Other	0	0	0	0	0	0
Other	0	0	0	0	0	0
Other	0	0	0	0	0	0
Operating profit	-2,495	-1,705	-900	-419	1,267	3,029
P&L Account						
Turnover	0	0	700	3,342	5,788	9,497
Operating Profit	-2,495	-1,705	-900	-419	1,267	3,029
Investment income	0	0	0	0	0	0
Net Interest	0	-1	3	106	377	402
Pre Tax Profit (UKSIP)	-2,495	-1,706	-897	-313	1,644	3,431
Goodwill amortisation	0	0	0	0	0	0
Exceptional Items	0	0	0	0	0	0
Pre Tax Profit (FRS3)	-2,495	-1,706	-897	-313	1,644	3,431
Tax	145	196	0	0	0	0
Post tax exceptionals	0	0	0	0	0	0
Minorities	0	0	0	0	0	0
Net Profit	-2,351	-1,510	-897	-313	1,644	3,431
Dividend	0	0	0	0	0	0
Retained	-2,351	-1,510	-897	-313	1,644	3,431
EBITDA	-2,494	-1,704	-900	-419	1,267	3,029
EPS (c) (UKSIP)	-0.15	-0.08	-0.02	-0.01	0.04	0.08
EPS (c) (FRS3)	-0.15	-0.08	-0.02	-0.01	0.04	0.08
FCFPS (c)	-0.12	-0.04	-0.04	-0.03	0.01	0.04
Dividend (c)	0.00	0.00	0.00	0.00	0.00	0.00

Source: Company data, Longspur Research estimates

KEY POINTS

- Protos deployment creates first revenue in FY 21
- Growth in recurrent licence fees raises revenue between these years
- Profit by FY 22
- Meaningful profit by FY 23

Balance Sheet

£ '000, DEC	2018a	2019a	2020e	2021e	2022e	2023e
Fixed Asset Cost	7	7	7	7	7	7
Fixed Asset Depreciation	-5	-7	-7	-7	-7	-8
Net Fixed Assets	2	0	0	0	-1	-1
Goodwill	0	0	0	0	0	0
Other intangibles	0	17	17	17	17	17
Investments	0	0	0	0	0	0
Stock	0	0	230	1,099	1,903	3,122
Trade Debtors	64	46	115	549	951	1,561
Other Debtors	145	310	310	310	310	310
Trade Creditors	-247	-490	-115	-549	-951	-1,561
Other Creditors <1yr	0	0	0	0	0	0
Creditors >1yr	0	0	0	0	0	0
Provisions	0	0	0	0	0	0
Pension	0	0	0	0	0	0
Capital Employed	-37	-117	557	1,425	2,229	3,448
Cash etc	841	104	3,533	12,569	13,409	15,621
Borrowing <1yr	0	0	0	0	0	0
Borrowing >1yr	0	0	0	0	0	0
Net Borrowing	-841	-104	-3,533	-12,569	-13,409	-15,621
Share Capital	12,396	12,923	12,927	12,936	12,936	12,936
Share Premium	48,774	48,779	53,774	63,982	63,982	63,982
Retained Earnings	-60,365	-61,714	-62,611	-62,924	-61,280	-57,849
Other	0	0	0	0	0	0
Minority interest	0	0	0	0	0	0
Capital Employed	-37	-117	557	1,425	2,229	3,448
Net Assets	804	-13	4,090	13,994	15,638	19,069
Total Equity	804	-13	4,090	13,994	15,638	19,069

Source: Company data, Longspur Research estimates

KEY POINTS

- Licencing model limits need for fixed assets
- Working capital needs grow as company develops
- Cash runs low in FY19 but funding provides cushion in FY 20 and FY 21

Cashflow

£ '000, DEC	2018a	2019a	2020e	2021e	2022e	2023e
Operating profit	-2,495	-1,705	-900	-419	1,267	3,029
Depreciation	1	1	0	0	0	0
Provisions	0	0	0	0	0	0
Other	554	693	0	0	0	0
Working capital	31	146	-869	-869	-804	-1,220
Operating cash flow	-1,909	-865	-1,769	-1,287	463	1,810
Tax paid	0	145	196	0	0	0
Capex (less disposals)	0	0	0	0	0	0
Investments	0	-17	0	0	0	0
Net interest	0	-1	3	106	377	402
Net dividends	0	0	0	0	0	0
Residual cash flow	-1,910	-737	-1,570	-1,181	840	2,212
Equity issued	3,402	0	5,000	10,217	0	0
Change in net borrowing	-1,493	737	-3,430	-9,035	-840	-2,212
Adjustments	0	0	0	0	0	0
Total financing	1,910	737	1,570	1,181	-840	-2,212

Source: Company data, Longspur Research estimates

KEY POINTS

- Working capital outflow from FY 20 as unit sales grow
- Working capital outflow picks up with higher units sales in FY 23
- New equity funding in FY 20 and warrant execution in FY 21
- Cash positive from FY 22

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