

# Taronis Technologies

Acquisition

Bolt-on acquisition to improve margins

Alternative energy

21 February 2019

**Price** **US\$0.84**  
**Market cap** **US\$17m**

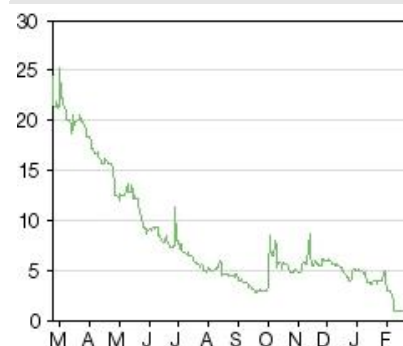
Taronis Technologies (formerly MagneGas) has announced its preliminary sales figures for January. In addition, it has acquired an unnamed industrial gas services business based in East Texas for \$1.5m, payable in cash. The business adds more than \$1m of high-margin service revenues annually and has the potential to cut around \$50k of operating expenses each month from the existing operations in East Texas and Louisiana.

Year end	Revenue (US\$m)	EBITDA* (US\$m)	PBT* (US\$m)	EPS (US\$)	DPS (US\$)	EV/Sales (x)
12/16	3.6	(9.6)	(10.3)	(620.5)**	0.0	4.5
12/17	3.7	(10.3)	(11.0)	(306.2)**	0.0	4.3
12/18e	10.0	(11.5)	(13.7)	(4.29)**	0.0	1.6
12/19e	19.6	(4.8)	(6.5)	(0.3)	0.0	0.8

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. \*\*Adjusted for reverse share splits.

Net cash (US\$m) at end September 2018	0.9
Shares in issue (after February 2019 placing)	20.3m
Free float	99.9%
Code	MNGA
Primary exchange	NASDAQ
Secondary exchange	N/A

## Share price performance



%	1m	3m	12m
Abs	(78.0)	(85.8)	(96.7)
Rel (local)	(78.9)	(86.3)	(96.8)
52-week high/low	US\$25.2	US\$0.9	

## Business description

Taronis is a technology company that has developed a plasma-based system for renewable fuel gasification and water decontamination. This process generates a hydrogen-based fuel called MagneGas as a by-product that is sold as an alternative metal-cutting fuel to acetylene.

## Next events

Q418 results March 2019

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## Reduction in FY19 losses expected

The acquired business provides high-margin infrastructure test and certification services to a wide range of industrial gas distributors in East Texas and Louisiana, including Taronis, which has nine distribution depots in the area. We raise our FY19 revenue estimate by \$0.8m to \$19.6m. In addition to the profit generated from providing services to other industrial gas distributors, Taronis will potentially save \$50k each month that is currently paid out for these services. We reduce both our FY19 EBITDA and PBT losses by \$0.8m to \$4.8m and \$6.5m respectively. The acquisition emphasises management's commitment to improving the profitability of the existing distribution platform. Taronis intends to replicate the new service offer across its operations in California and Florida, increasing both revenue and margin in these geographies as well.

## February placing funds transaction

The transaction was funded using some of the \$13.5m (gross) from the fund-raising announced earlier this month. This involves a placing of 10.8m new shares at \$1.25/share, together with warrants to purchase up to 8.1m new shares, also exercisable at \$1.25/share. While this has had a highly dilutive impact, management notes that the group is now well funded for the foreseeable future.

## Valuation: Trading at a discount to peers

Taronis's shares are trading at a substantial discount to the EV/Sales mean of our sample of suppliers of industrial gases for 2019 (0.8x vs 3.0x). We see scope for share price appreciation on positive newsflow regarding cash burn, water decontamination commercialisation and European expansion.

**Exhibit 1: Financial summary**

Accounts: GAAP, Year-end: December, US\$000s	2016	2017	2018e	2019e
<b>INCOME STATEMENT</b>				
Total revenues	3,552	3,719	9,951	19,608
Cost of sales	(2,018)	(2,217)	(6,380)	(9,918)
Gross profit	1,534	1,503	3,571	9,690
SG&A (expenses)	(10,479)	(11,664)	(15,053)	(14,099)
R&D costs	(679)	(172)	(12)	(360)
Other income/(expense)	0	0	0	0
Exceptionals and adjustments	(1,856)	50	0	0
Depreciation and amortisation	(651)	(673)	(1,317)	(1,680)
Reported EBIT	(12,130)	(10,956)	(12,811)	(6,448)
Finance income/(expense)	(52)	(15)	(895)	(54)
Other income/(expense)	50	(2)	0	0
Exceptionals and adjustments	(5,338)	(52)	0	0
Reported PBT	(17,470)	(11,024)	(13,706)	(6,503)
Income tax expense (includes exceptionals)	0	(4,974)	0	0
Reported net income	(17,470)	(15,999)	(13,706)	(6,503)
Basic average number of shares, m*	0.0	0.0	3	20
Basic EPS* (\$)	(52.74)	(22.22)	(4.3)	(0.3)
Adjusted EBITDA	(9,623)	(10,333)	(11,494)	(4,768)
Adjusted EBIT	(10,274)	(11,006)	(12,811)	(6,448)
Adjusted PBT	(10,276)	(11,022)	(13,706)	(6,503)
Adjusted EPS* (\$)	(620.45)	(306.21)	(4.29)	(0.32)
Adjusted diluted EPS* (\$)	(620.45)	(306.21)	(4.29)	(0.32)
<b>BALANCE SHEET</b>				
Property, plant and equipment	6,403	6,865	9,961	10,337
Goodwill	2,109	2,109	3,359	4,859
Intangible assets	437	412	2,366	2,321
Other non-current assets	27	352	352	352
Total non-current assets	8,975	9,739	16,038	17,868
Cash and equivalents	1,616	587	10,759	16,712
Inventories	1,616	739	1,908	5,186
Trade and other receivables	443	390	1,908	2,149
Other current assets	226	198	198	198
Total current assets	3,901	1,913	14,774	24,244
Non-current loans and borrowings	620	584	556	529
Other non-current liabilities	0	0	0	0
Total non-current liabilities	620	584	556	529
Trade and other payables	416	1,717	2,454	2,955
Current loans and borrowings	9	579	27	27
Other current liabilities	8,002	954	772	772
Total current liabilities	8,428	3,250	3,253	3,754
Equity attributable to company	3,829	7,819	27,003	37,830
<b>CASH FLOW STATEMENT</b>				
Profit before tax	(17,470)	(11,024)	(13,706)	(6,503)
Net finance expenses	0	0	895	54
Depreciation and amortisation	651	673	1,317	1,680
Share based payments	347	425	330	330
Other adjustments	8,515	3,024	1,955	0
Movements in working capital	(682)	2,114	49	(517)
Interest paid / received	0	0	(895)	(54)
Income taxes paid	0	0	0	0
Cash from operations (CFO)	(8,640)	(4,788)	(10,055)	(5,010)
Capex	(1,425)	(129)	(1,510)	(2,010)
Acquisitions & disposals net	0	(325)	(8,107)	(4,000)
Other investing activities	(55)	(0)	0	0
Cash used in investing activities (CFIA)	(1,480)	(454)	(9,617)	(6,010)
Net proceeds from issue of shares	6,422	5,008	30,423	17,000
Movements in debt	0	0	(552)	0
Other financing activities	(5)	(795)	(27)	(27)
Cash from financing activities (CFF)	6,416	4,213	29,844	16,973
Increase/(decrease) in cash and equivalents	(3,703)	(1,030)	10,172	5,953
Cash and equivalents at end of period	1,616	587	10,759	16,712
Net (debt) cash	987	(576)	10,175	16,155

Source: Company accounts, Edison Investment Research. Note: \*Adjusted for reverse share splits.

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