

Fluence Corporation

Capital raising

Cash call

Fluence has raised A\$36m (US\$25m) through a placement of 81.8m shares at A\$0.44 (a 12% discount to the closing price on Wednesday, 16 October). The company indicates the proceeds will fund the expansion of MABR capacity in China, growth into new (unspecified) geographic territories and will ensure it has sufficient capital on hand to meet CES (Custom Engineering Solutions) project guarantees. The raise has been supported by existing shareholders plus new Australian institutional investors.

Year end	Revenue (US\$m)	Adjusted EBITDA* (US\$m)	EPS* (c)	EV/revenue (x)	EV/EBITDA (x)	P/E (x)
12/17	33.2	(23.6)	(7.0)	4.7	N/A	N/A
12/18	101.1	(8.5)	(2.5)	1.6	N/A	N/A
12/19e	120.0	(7.5)	(1.8)	1.3	N/A	N/A
12/20e	207.3	5.7	0.5	0.8	27.4	58.9

Note: *EBITDA and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Following the setback in Q2 (see [A quieter Q2](#)) we highlighted that delivering on its commitment to reach EBITDA profitability in Q419 primarily hinged on Fluence's ability to reach financial close in its large Ivory Coast (CES) project. The company also recently announced its second high-volume Aspiral order in China and is adding production in Yiyang to meet this demand (see [Further Progress in China](#)). The combination of capacity expansion plus a ramp up of Ivory Coast construction costs is likely to place a strain on working capital in the near term. Given the size of these deals (see ["Landmark" €165m contract win](#)), once delivery is underway we believe Fluence should be sustainably profitable and largely cash generative.

We make no changes to our underlying forecasts, but the additional share capital modestly lowers our FY20 EPS forecast (from 0.6 cents to 0.5 cents) and per share valuation (from A\$0.70 to A\$0.66). We continue to believe the company's long-term prospects are a more significant valuation driver. Our recent theme piece ([Water - The real liquidity crisis](#)) highlighted the big opportunities for investors in the sector and the strategic approach adopted in China make it a particularly attractive market in our view. Fluence's leading MABR technology makes it a good way to gain exposure and, to the extent this capital raise gives it greater headroom to capitalise on this opportunity, it should be welcomed. However, as we have highlighted previously, predicting the timing of large, lumpy CES contracts is not straightforward. Fluence is due to publish a Q3 trading statement at the end of the month.

Industrials

21 October 2019

Price **A\$0.45**
Market cap **A\$279m**

US\$/A\$1.46

Estimated net cash (US\$m) at end 2019 38

Shares in issue 620m

Free float 60%

Code FLC

Primary exchange ASX

Secondary exchange N/A

Share price performance



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.

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