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Fluence

Industrials

30 July 2018

Q2 trading update

Fluence's Q2 statement confirms FY18 guidance and highlights encouraging progress in China. The company still has a lot to deliver in H218, but the fundamentals of its market (the supply of distributed water/wastewater treatment) look very attractive, in our view.

On track to double

Fluence reiterated guidance of $105-115m in revenues for FY18, a near doubling of pro-forma sales y-o-y. After reporting $22.6m in Q2, the mid-range of this target implies revenues of $77m in H218 ($38.6m per quarter). The timing of revenue recognition on large contracts is hard to predict and, following a miss in Q417, investors may need more evidence of delivery. Nevertheless, this forecast is underpinned by a revenue backlog of $84m, $49m of which is expected to be recognised in H2 (predominantly the San Quintin and PDVSA projects), and a very healthy pipeline of business yet to reach the order book.

China momentum building…

The Chinese market has huge long-term growth potential in our view (see China Water Affairs). Fluence has been steadily building up its presence by signing up regional partners and demonstrating the cost effectiveness of its technology. Q2 provided significant evidence of commercial traction with a further three new partners delivering their first sales. Revenue from China is likely to be modest in FY18 (low single-digit millions) but has the potential to expand dramatically in FY19 and beyond, in our view.

…and momentum elsewhere

While no financial details were provided, progress across other regions, particularly Europe and Latin America, and further sales of smart packaged solutions like Nirobox, were also highlighted. The company consumed $14.2m in cash from operating activities ($17.7m in total) and expects to consume a further $13.6m in Q3. We expect the ramp up of San Quintin to bolster cash generation in Q4.

Valuation: Fundamentals factored in

At A$0.39/share and using Q2 $40.2m net cash, Fluence trades at 2.7x consensus FY20 EBITDA, a multiple which suggests the market is sceptical about delivery. Re-iteration of guidance and China commentary should provide some reassurance. We believe the decentralised water and wastewater treatment solution market has very attractive long-term growth prospects and with a suite of unique IP and global resources, Fluence is well-positioned to address this opportunity.

Consensus estimates

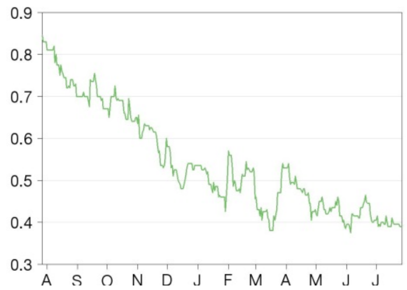
Year end	Revenue (US$m)	EBITDA (US$m)	PBT (US$m)	EPS (US$)	EV/Sales (x)	EV/EBITDA (x)
12/17	58.0	-24.8	-22.9	-7.0	1.5	N/M
12/18e	100.6	-14.4	-17.9	-3.2	0.8	N/M
12/19e	147.0	-2.5	-7.8	-1.4	0.6	N/M
12/20e	267.0	31.5	23.5	4.2	0.3	2.7

Source: Canaccord Genuity (see https://www.fluencecorp.com/investor-news/)

Price	**A$0.39**
Market cap	**A$170m**

AUS$/US$ = 0.74

Share price graph



Share details

Code	FLC
Listing	ASX
Shares in issue	435m

Business description

Fluence is a global supplier of waste and fresh water treatment solutions. Its patented MABR and Nirobox technologies provide municipal and industrial customers "plug and play" solutions that aim to be both quicker to deploy and substantially cheaper than traditional alternatives.

Bull

- Rapid acceleration in growth anticipated in H218
- Large untapped opportunity in China
- Order book offering good visibility.

Bear

- Not expected to reach profitability until 2019
- Missed revenue target in 2017
- Low liquidity

Analysts

Dan Gardiner +44 (0)20 3077 5700
Dario Carradori +44 (0)20 3077 5700
Graeme Moyse +44 (0)20 3077 5700
industrials@edisongroup.com

EDISON

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
295 Madison Avenue, 18th Floor
10017, New York
US

Sydney +61 (0)2 8249 8342
Level 12, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia