

Orège

H1 results

UK commercial delays affect 2019 sales

Following H1 results highlighting delays in the UK commercial development, we have reduced our forecasts to reflect our assumption of a one-year delay in the revenue ramp-up for Orège. An acceleration of revenue growth would be the main catalyst for a potential rerating.

Year end	Revenues (€m)	EBITDA (€m)	EBIT (€m)	Net income (€m)	EV/sales (x)
12/17	0.4	(10.1)	(11.5)	(13.6)	128.2
12/18	2.3	(7.7)	(8.5)	(10.9)	26.9
12/19e	3.0	(7.6)	(8.4)	(10.8)	29.6
12/20e	6.0	(6.4)	(7.2)	(8.3)	14.8

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

UK commercial delays affect 2019 revenues

At its H1 results Orège reported €0.1m revenues (vs €0.9m in H118) and warned that uncertainties around Brexit and the fact that several UK water utilities have seen their five-year plans delayed by the regulator, Ofwat, will result in delays to the negotiations for the sale of new solid, liquid, gas (SLG) units, with a larger than earlier expected impact on 2019 revenues. Orège estimates a €3m turnover for the contracts under execution, which the company expects to book mostly in Q419. Earlier in the summer, Orège announced that €39.6m were subscribed in its rights issue (€33.9m through the conversion of a receivable by Eren Industries and €5.7m in cash), which will be used to strengthen its balance sheet and accelerate commercial development in strategic growth countries (the US, UK, Germany and Japan) and the development of new waste to energy solutions.

Revenue ramp-up delayed by one year

We cut our forecasts to reflect the reduced 2019 outlook provided by the company. As a result of the commercial delays in the UK, a key market for Orège, and as 2019 revenues are likely to be around half of what we previously expected, we have delayed the revenue ramp up we include in our forecasts by one year. We assume an increased focus on cost-cutting through a slower increase in costs in FY19 to FY21 and now expect EBITDA to roughly break even in FY22 (vs FY21 previously) and positive cash flow in FY23 (vs FY22 before). In addition to the earnings reductions, we have updated our forecasts to reflect the increase in the number of shares following the July capital increase. We estimate the capital increase will drastically reduce net debt to €15.6m at end FY19 (vs our previous forecast of €55.4m). We forecast available liquidity of c €5m at the end of 2019.

Valuation: Growth delivery is key catalyst for rerating

For the share price to recover after the recent decline, we believe delivering growth is required as a catalyst. Based on our forecasts and a 12.5% WACC (consistent with the rate we use for companies at a similar stage of development), the current share price implies five years of growth in line with our assumptions but only inflationary growth thereafter. Mature water equipment companies trade on 2x EV/sales for FY19. Based on the current share price and our forecasts, Orège trades on around the same multiple in FY23.

General industrials

11 October 2019

Price €0.88

Market cap €44m

Net debt (€m) FY19e 15.6

Shares in issue 50.6m

Free float 16.4%

Code ORÈGE

Primary exchange Euronext

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (15.6) (28.9) (71.9)

Rel (local) (15.2) (29.0) (73.3)

52-week high/low €3.35 €0.65

Business description

Founded in 2006 and listed on Euronext in 2013, Orège is a clean-tech company that has developed an innovative, patented technology (solid, liquid, gas) to significantly reduce sludge treatment costs and improve environmental sustainability of the treatment process. It has commercial operations in France, the UK, the US and Germany and is a partner of Itochu Machine-Technos Corp in Japan.

Next events

FY results April 2020

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UK commercial delays impact 2019 revenues

At its H1 results Orège:

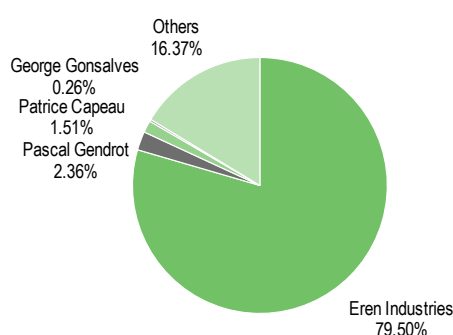
- Reported €0.1m revenues (vs €0.9m in H118), EBIT loss of €4.9m (vs a loss of €4.4m in H118) and a net loss of €6.5m (vs €5.5m in H118).
- Warned that uncertainties around Brexit and that several UK water utilities have seen their five-year plans delayed by the regulator, Ofwat, will result in delays to the negotiations for the sale of new SLG units, with a larger than expected impact on revenues for 2019. Orège remains confident about the potential of the UK market and continues negotiations with several UK water utilities.
- Said that one UK water utility has not retained Orège's proposal for a lorry-carried thickening solution.
- Said it estimates a €3m turnover for the nine contracts under execution in other five countries, which the company expects to book mostly in Q419. Orège expects to deploy its first projects in Japan, Spain and Italy in H2.

€39.6m capital increase completed in July

In July 2019 Orège announced the results of its rights issue, with €39.6m shares subscribed (€33.9m through the conversion of a receivable by Eren Industries and €5.7m in cash), which will be used to strengthen its balance sheet and accelerate commercial development. In particular, Orège said the funds will be used to finance commercial development in strategic growth countries (the US, UK, Germany and Japan) and the development of new waste to energy solutions.

News of a capital increase was expected as there was a legal requirement to recapitalise the company before the end of 2019. As a result of the capital raise, Eren Industries increased its stake in Orège to 79.5% (from 69% before).

Exhibit 1: New shareholding structure post capital raise (% of capital)



Source: Company data

The capital increase will drastically reduce net debt to €15.6m (Edison estimate) at the end of FY19, which compares to our previous forecast of €55.4m. The €5.7m cash raised adds to the undrawn shareholder current account facility of €3.3m at 30 June 2019. We expect the c €9m total available liquidity in July 2019 to reduce to c €5m at the end of 2019.

Forecasts reduced

We have cut our forecasts for 2019 to reflect the new outlook provided by the company. As a result of the commercial delays in the UK, a key market for Orège, and as 2019 revenues are likely to be around half of what we previously expected, we have delayed the significant revenue ramp up we include in our forecasts by one year. We assume increased focus on cost cutting, resulting in a slower increase in costs in FY19 to FY21, which, however, have little impact on the bottom line when compared to the effect of reduced revenues. We now expect EBITDA to roughly break even in FY22 (vs FY21 previously) and positive cash flow in FY23 (vs FY22 before).

In addition to the revenue and earnings reductions, we have updated our forecasts to reflect the increase in the number of shares following the recent capital increase. We reduce financial expenses significantly to reflect the smaller debt burden.

Exhibit 2: Forecast changes				
€000s		FY18	FY19e	FY20e
Revenues	NEW	2,260	3,005	6,027
	OLD	2,260	6,281	11,007
	% change	0%	-52%	-45%
EBITDA	NEW	-7,749	-7,630	-6,442
	OLD	-7,749	-5,943	-3,802
	% change	0%	28%	69%
EBIT	NEW	-8,537	-8,430	-7,242
	OLD	-8,537	-6,743	-4,602
	% change	0%	25%	57%
Net Income	NEW	-10,915	-10,796	-8,335
	OLD	-10,915	-9,849	-8,477
	% change	0%	10%	-2%
Net debt	NEW	44,449	15,620	23,875
	OLD	44,382	55,350	65,219
	% change	0%	-72%	-63%

Source: Company data, Edison Investment Research

Growth delivery is key catalyst for potential rerating

As Orège is at an early stage of commercial development there is significant uncertainty over its valuation, which is reflected in the recent share price volatility. For the share price to recover, we believe delivering growth is required as a catalyst. Based on our current forecasts and a 12.5% WACC (consistent with the rate we use for companies at a similar stage of development), the current share price implies five years of growth in line with our assumptions (€58m revenues in FY24) but only inflationary growth thereafter. Mature water equipment companies trade on 2x EV/sales for FY19. Based on the current share price and our forecasts, Orège trades on around the same multiple in FY23.

Exhibit 2: Financial summary

Accounts: IFRS, Yr end: December, EUR: Thousands	2016	2017	2018	2019e	2020e
Income statement					
Total revenues	703	387	2,260	3,005	6,027
Cost of sales	(1,568)	(597)	(600)	(1,114)	(2,849)
Gross profit	(865)	(210)	1,660	1,891	3,178
SG&A (expenses)	(14,103)	(9,858)	(9,409)	(9,521)	(9,620)
Depreciation and amortisation	(2,241)	(1,417)	(788)	(800)	(800)
Reported EBIT	(17,209)	(11,485)	(8,537)	(8,430)	(7,242)
Finance income/(expense)	(822)	(1,739)	(2,378)	(2,366)	(1,093)
Other income/(expense)	168	(411)	0	0	0
Exceptionals and adjustments	0	0	0	0	0
Reported PBT	(17,864)	(13,635)	(10,915)	(10,796)	(8,335)
Income tax expense (includes exceptionals)	114	0	0	0	0
Reported net income	(17,750)	(13,635)	(10,915)	(10,796)	(8,335)
Basic average number of shares, m	18.7	18.7	18.7	34.6	50.6
Basic EPS	(0.95)	(0.73)	(0.58)	(0.31)	(0.16)
DPS	0.00	0.00	0.00	0.00	0.00
Adjusted EBITDA	(14,968)	(10,068)	(7,749)	(7,630)	(6,442)
Adjusted EBIT	(17,209)	(11,485)	(8,537)	(8,430)	(7,242)
Adjusted PBT	(17,864)	(13,635)	(10,915)	(10,796)	(8,335)
Adjusted EPS, €/sh	(0.95)	(0.73)	(0.58)	(0.31)	(0.16)
Adjusted diluted EPS, €/sh	(0.95)	(0.73)	(0.58)	(0.31)	(0.24)
Balance sheet					
Property, plant and equipment	1,455	987	719	719	719
Intangible assets	242	190	156	156	156
Other non-current assets	1,857	2,779	3,113	3,113	3,113
Total non-current assets	3,554	3,956	3,987	3,987	3,987
Cash and equivalents	950	506	321	5,991	5,991
Inventories	1,860	1,432	1,226	1,593	2,852
Trade and other receivables	164	467	502	801	1,606
Other current assets	1,212	713	808	808	808
Total current assets	4,186	3,118	2,857	9,193	11,258
Non-current loans and borrowings	20,672	33,810	44,703	21,545	29,800
Other non-current liabilities	149	143	66	66	66
Total non-current liabilities	20,821	33,953	44,769	21,610	29,865
Trade and other payables	1,416	888	1,385	1,286	2,631
Current loans and borrowings	265	323	272	272	272
Other current liabilities	1,658	1,495	1,087	1,087	1,087
Total current liabilities	3,339	2,706	2,745	2,645	3,991
Equity attributable to company	(16,421)	(29,584)	(40,670)	(11,076)	(18,611)
Non-controlling interest	0	0	0	0	0
Cashflow statement					
Profit for the year	(17,750)	(13,520)	(10,915)	(10,796)	(8,335)
Taxation expenses	(114)	0	0	0	0
Profit before tax	(17,864)	(13,520)	(10,915)	(10,796)	(8,335)
Net finance expenses	822	1,739	2,378	2,366	1,093
EBIT	(17,041)	(11,781)	(8,537)	(8,430)	(7,242)
Depreciation and amortisation	5,409	1,327	372	800	800
Share based payments	0	0	0	0	0
Other adjustments	2,243	(692)	(796)	800	800
Movements in working capital	(791)	(341)	160	(765)	(720)
Cash from operations (CFO)	(10,180)	(11,487)	(8,801)	(7,596)	(6,362)
Capex	(2,168)	(870)	93	(800)	(800)
Acquisitions & disposals net	4	3	0	0	0
Other investing activities	0	0	0	0	0
Cash used in investing activities (CFIA)	(2,164)	(868)	93	(800)	(800)
Net proceeds from issue of shares	23	(72)	48	39,590	0
Movements in debt	12,487	11,480	8,518	(28,828)	8,255
Dividends paid	0	0	0	0	0
Other financing activities	(164)	(23)	(40)	(2,366)	(1,093)
Cash from financing activities (CFF)	12,346	11,385	8,526	8,396	7,162
Currency translation differences and other	(1)	525	10	0	0
Increase/(decrease) in cash and equivalents	0	(444)	(171)	0	0
Cash and equivalents at end of period	950	506	321	5,991	5,991
Net (debt) cash	(19,560)	(33,201)	(44,449)	(15,620)	(23,875)
Movement in net (debt) cash over period	(19,560)	(13,641)	(11,248)	28,828	(8,255)

Source: Orège, Edison Investment Research

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