eEnergy

Balance sheet transformed, pipeline building

30th April 2024

eEnergy's FY23 results are in line with expectations, having been well flagged in the March update. Recent months have seen the balance sheet transformed by the disposal of Energy Management and growth capacity materially enhanced by a £40m project funding facility with NatWest. H1'24 results are likely to be softer than expected but last week's c. £5.2m contract win with Spire Healthcare – one of the Group's largest to date – gives us confidence in pipeline conversion and a meaningful step-up in revenue and profitability from H2. eEnergy is now well capitalised, with an excellent track record of growth (three-year CAGR of 58% within Energy Services). We expect this to continue, driven by an ambitious management team with a focused strategy to capitalise on a highly attractive market with significant scale.

FY'23 results in line with recent trading update

Group revenue for the 18-month period was £45.6m (in line with our £46.0m forecast) and EBITDA was £5.1m (ED forecast £5.1m). Annualised revenues were £30.4m, +38% versus FY22 on a like-for-like basis. Net debt was slightly better than forecast at £8.0m (ED forecast £8.4m) and this pre-dated the £25m initial cash receipt from the Energy Management disposal.

H1'24 performance constrained but pipeline points to much stronger H2

Balance sheet constraints and the distraction of the Energy Management (EM) disposal held back the Group's performance in the final six months of FY'23 and the early months of FY'24. This was exacerbated by market factors, as a result of falling energy prices and the increased cost of funding. As a result, H1'24 results are likely to be weaker than expected but management is confident in a strong step-up in performance from H2'24. The medium-term outlook remains very positive but we have prudently trimmed FY25, whilst leaving FY26 unchanged (see p.5). Our new Energy Services EBITDA forecasts are £2.7m, £4.7m and £6.0m for FY24 to FY26 (from £3.8m, £5.1m and £6.0m).

Well positioned to capitalise on significant market opportunities

eEnergy now has the balance sheet strength to tender for much larger contracts, which we expect to support a significant uplift in revenue and EBITDA from H2'24. The benefits are already being seen with the recent £40m funding facility agreement with NatWest and last week's (22nd April) major contract with Spire Healthcare. Our Fair Value estimate of 13p per share represents an EV/EBITDA rating of c.8.5x our FY26 forecast. This is in line with the current FY1 EV/EBITDA rating of the peer group. Note that our forecasts do not include the potential benefit of deferred consideration from the EM disposal, which management estimates at between £8m and £10m over the next two years.

Key Financials & Valuation metrics (Annualised to Dec)

Year-end Dec, £m	2022A	2023E	2024E	2025E	2026E
Sales	27.6	30.5	25.5	31.5	36.5
EBITDA	3.7	3.6	0.8	3.2	4.2
Adjusted PBT	2.5	0.9	-0.7	2.2	3.2
FD EPS (p)	0.6	0.4	-0.1	0.4	0.6
DPS (p)	0.0	0.0	0.0	0.0	0.0
Net Cash/(Debt)*	-6.9	-8.0	8.9	9.3	10.6
Net Cash/(Debt)**	-6.2	-7.4	9.5	9.9	11.2
P/E	11.2x	18.2x	-50.4x	17.2x	11.6x
EV/EBITDA	7.9x	8.6x	18.0x	4.2x	2.9x
EV/Sales	1.1x	1.0x	0.5x	0.4x	0.3x

*Source: ED analysis, IFRS 16 basis * including leases ** excluding lease, Share price as at 29/04/24*

Company Data

EPIC	EAAS.L
Price (last close)	6.4p
52 weeks Hi/Lo	8.4p/3.5p
Market cap	£22.7m
ED Fair Value/share	13p
Proforma net cash (Dec '24)	£9.5m
Avg. daily volume (k)	1,700

Share Price, p

Source: ADVFN

Description

eEnergy is a leading energy services company, helping corporate and public sector clients to achieve their Net Zero goals profitably. The business listed on AIM in early 2020 and has delivered significant underlying revenue and EBITDA growth since then, reflecting positive underlying market drivers and successful strategic execution. The Group recently divested its Energy Management business to DCC plc, strengthening the balance sheet to support the growth of the Energy Services business.

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FY23 results overview

eEnergy's FY23 results are in line with our expectations, covering the 18-month period to December 2023. As a reminder, the year-end has been changed from June to December to be better aligned with the seasonality of the business (Q2/Q3 being the busiest time for school installations).

Group revenue for the 18-month period was £45.6m (in line with our £46.0m forecast) and EBITDA was £5.1m (ED forecast £5.1m). Annualised revenues were £30.4m, +38% versus FY22 on a like-for-like basis.

The Group has been transformed since the period end by the disposal of the Energy Management business. This has effectively recapitalised the balance sheet, taking this from a net debt position of £8.0m at Dec '23 to a healthy net cash position of £9.5m at Dec'24(E). We focus on the performance of Energy Services, the continuing business, in this note.

Divisional summary – annualised to December

Year-end Dec, £m	2022(A)	2023(A)	2024(E)	2025(E)	2026(E)
Segmental Revenue					
Energy Management (Divested)	13.4	12.7	0.0	0.0	0.0
% growth	*96%*	*-5%*	*-100%*	*-*	*-*
Energy Services	14.2	17.8	25.5	31.5	36.5
% growth	*51%*	*25%*	*43%*	*24%*	*16%*
Group	**27.6**	**30.5**	**25.5**	**31.5**	**36.5**
% growth	*70%*	*10%*	*-16%*	*24%*	*16%*
% of Group					
Energy Management	*49%*	*42%*	*0%*	*0%*	*0%*
Energy Services	*51%*	*58%*	*100%*	*100%*	*100%*
Segmental Gross profit					
Energy Management (Divested)	10.7	9.9	0.0	0.0	0.0
Energy Services	5.1	6.2	7.7	9.8	11.1
Group	**15.8**	**16.1**	**7.7**	**9.8**	**11.1**
% margin					
Energy Services	*35.5%*	*34.6%*	*30.0%*	*31.0%*	*30.5%*
Group	*57.1%*	*52.7%*	*30.0%*	*31.0%*	*30.5%*
% growth					
Energy Services	*54%*	*22%*	*24%*	*28%*	*14%*
Group	*86%*	*2%*	*-52%*	*28%*	*14%*
Segmental EBITDA					
Energy Management (Divested)	4.0	3.6	0.0	0.0	0.0
Energy Services	1.7	1.3	2.7	4.7	6.0
Central Costs	-1.9	-1.3	-1.9	-1.6	-1.8
Group	**3.7**	**3.6**	**0.8**	**3.2**	**4.2**
% margin					
Energy Services	*12%*	*7%*	*11%*	*15%*	*17%*
Group	*13%*	*12%*	*3%*	*10%*	*12%*
% growth					
Energy Services	*110%*	*-23%*	*108%*	*76%*	*27%*
Group	*194%*	*-4%*	*-79%*	*312%*	*33%*

Source: Company historic data, ED forecasts and analysis

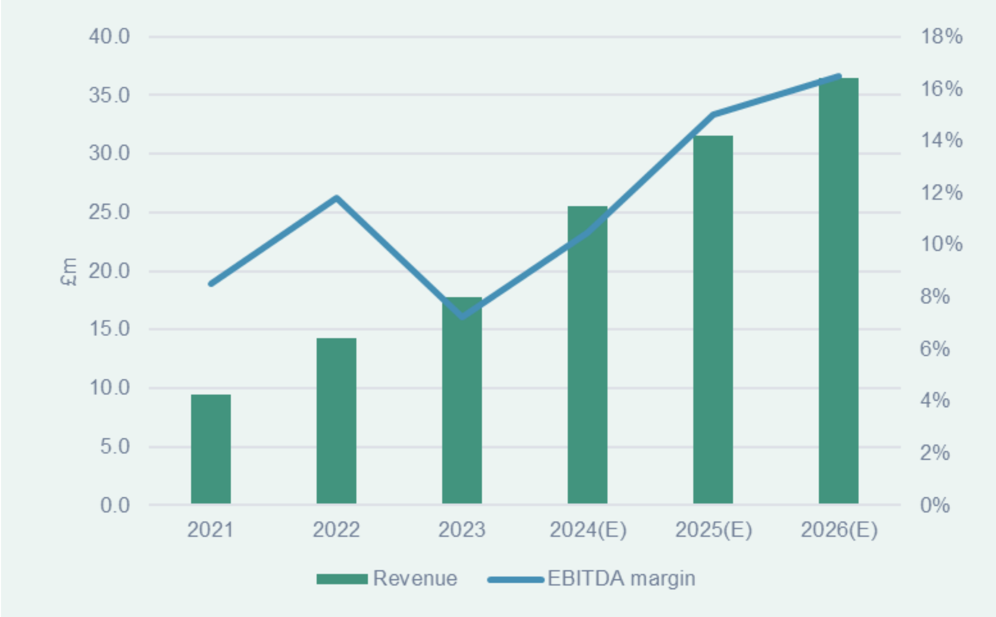
Energy Services results highlights

Energy Services reported revenue of £26.3m for the 18-month period, or £17.5m on an annualised basis, +68% versus FY22 on a like-for-like basis (FY22 £10.5 million). Gross margin increased by 160bps despite inflationary pressures and a changing product mix (in particular towards solar, which typically attracts a lower margin than lighting).

Adjusted EBITDA increased to £2.3m (£1.5m annualised, +55% versus FY22). EBITDA growth was slightly tempered by investment in opex, reflected in a reduction in the adjusted EBITDA margin from 9.3% to 8.6%.

The chart below shows the strong revenue growth within Energy Services over a number of years. To create this chart, we have taken the results from January to December for 2021, 2022 and 2023 (i.e. not the financial years as reported, when 2021 and 2022 had June year ends and 2023 was an 18-month period).

Energy Services revenue and EBITDA margin (annualised to December)



Source: Company historic data, ED forecasts and analysis

As at 31st December '23, the Energy Services forward order book (contracted future revenues) was £7.8m, which is expected to convert to revenue during FY24. This represents a 96% increase on the forward order book of £4.0m at 31st December '22. Solar now accounts for an increasing proportion of the forward order book, representing 64% of the order book in December '23.

Recent recapitalisation unlocks pipeline

As we have discussed in previous notes, revenue growth has been constrained in recent periods by a lack of balance sheet headroom and firepower. The disposal of the Energy Management business for an initial £25m in cash immediately removed this constraint. The Group now has the working capital to tender for much larger, multi-million-pound contracts, which we expect to support a significant uplift in revenue and EBITDA from H2'24.

The benefits are already being seen with the recent £40m funding facility agreement with NatWest and last week's (22nd April) major solar contract with Spire Healthcare (see following page).

Significant opportunities in Reduction, Generation and Charging

The strategy is now clearly focused on three pillars of Energy Reduction (e.g. eLight), Energy Generation (e.g. eSolar) and Charging (EV charging for public and private sector customers). Management sees Charging as an opportunity for future years, whereas Reduction and Generation are both already material contributors to revenue and pipeline (we assume 50:50 in terms of current year revenue).

Energy Services helps clients to reduce their energy consumption by switching to energy efficient technologies via a capital-free funding model. The original eLight business remains an important growth driver for eEnergy. Management estimates that c.70% of the education market is yet to upgrade to energy efficient LED lighting, suggesting that the lighting opportunity alone could be worth c.£2bn across some 20,000 schools and other education settings. The ban on new fluorescent light bulbs (from 2023) is a clear regulatory driver to accelerate this change. eEnergy has an excellent reputation and over 10 years' experience in this area and is well placed to win a meaningful share of this business, whilst also having the opportunity to help its education customers with the transition to solar energy generation.

Recap of recent transformative newsflow

FY'24 has already been a very busy period for the Group, with key developments in the disposal of Energy Management, the subsequent £40m funding arrangement with NatWest and, most recently, one of the Group's largest contract wins to date, with Spire Healthcare. We provide a brief recap below.

Energy Management disposal - £29m initial consideration received

eEnergy reported in early November that it had received a number of unsolicited approaches for its Energy Management (EM) division and that it had entered a period of exclusivity with one of the interested parties. Negotiations concluded with the disposal of the EM business to Flogas Britain Limited (a subsidiary of FTSE 100 constituent DCC plc). The initial consideration of £29.3m comprised £25.0m cash (received 9th February) with the balance of £4.3m being used to repay amounts due from the Group to the EM division. The net proceeds will be reinvested in the high growth Energy Services division after paying down external debt facilities of £8.1m. The contingent consideration is estimated by the Company to be in the range of £8m to £10m (and capped at £20m). NB this is not reflected in our forecasts or valuation analysis.

£40m project funding facility with NatWest

In March, eEnergy entered into an agreement with NatWest to provide up to £40m of project funding to finance energy efficiency and onsite generation technologies for public sector customers across the full range of eEnergy products. The facility will be deployed through a newly-formed special purpose vehicle owned by eEnergy. eEnergy will be the operator of each project, retaining ownership and an interest in the economics of each completed project. The facility is available for a period of 12 years with investment planned over the first 24 months.

The Board believes that the facility gives eEnergy a unique, compliant off balance sheet solution for public sector customers, which will strengthen its competitive position in tendering for large multi-site contracts. The facility will also lower eEnergy's cost of capital, delivering an attractive financial return on the retained project interests.

Major contract win with Spire Healthcare

eEnergy signed a c.£5.2m contract with Spire Healthcare Group plc on 22nd April to provide a photovoltaic (PV) system across 38 sites. Revenues under the contract are expected to be recognised in FY24, supporting the Group's existing forecasts for the period. The contract award follows the successful installation of a first solar trial site. Spire is a leading provider of private healthcare in the UK, operating a network of 39 hospitals and over 50 clinics, medical centres and consulting rooms across England, Wales and Scotland.

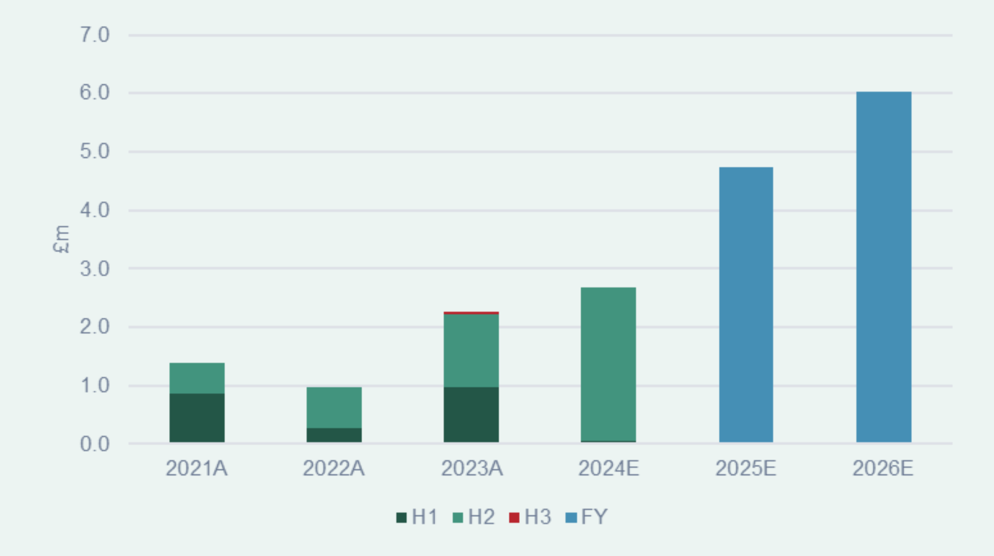
Forecast changes reflect recent growth constraints

H2 weighting to current year results

Balance sheet constraints and the distraction of the Energy Management disposal held back the Group's performance in the final six months of FY'23 and in the early months of FY'24. This was exacerbated by market factors, as a result of falling energy prices and the increased cost of funding.

As a result, H1'24 results are likely to be weaker than previously expected but management is confident in a return to strong revenue and earnings growth from H2'24. Current year profits will therefore be largely weighted towards the second half, supported by the conversion of the pipeline, including the recent Spire Healthcare contract win. The chart below highlights the recent performance of the Energy Services business, as reported. This highlights the limited EBITDA contribution in the final six months of FY'23 and our expectation of a similar performance in H1'24 with a much-improved performance from H2.

Energy Services EBITDA (H1:H2 analysis)



Source: Company historic data, ED forecasts and analysis

The table below summarises our forecast changes within this note, allowing for the weaker H1 performance. Given the strong pipeline, we are confident in prospects for H2'24, which should see the Group enter FY'25 with good momentum and a clear pathway to continued growth in that year. We have prudently trimmed our FY25 forecast, leaving FY26 unchanged.

FY23 in line, updating forecasts for FY24 – FY26

Year-end Dec, £m	2023			2024E			2025E			2026E		
	Act.	Est.	Change	New	Old	Change	New	Old	Change	New	Old	Change
Revenue	45.6	46.0	*-1%*	25.5	30.0	*-15%*	31.5	34.0	*-7%*	36.5	38.0	*-4%*
Energy Serv's EBITDA	2.3	2.6	*-13%*	2.7	3.8	*-30%*	4.7	5.1	*-7%*	6.0	6.0	*0%*
Group EBITDA	5.1	5.2	*-3%*	0.8	1.8	*-58%*	3.2	3.4	*-6%*	4.2	4.2	*0%*
PBT (underlying)	1.8	1.8	*0%*	-0.7	0.3	*n/m*	2.2	2.4	*-9%*	3.2	3.2	*1%*
EPS fully diluted p	0.6	0.4	*40%*	-0.1	0.1	*n/m*	0.4	0.4	*-9%*	0.6	0.5	*1%*
Net cash/ (debt)	-8.0	-8.4	-5%	8.9	10.6	-16%	9.3	11.4	-18%	10.6	12.9	-18%
Net cash ex. leases	-7.4	-7.7	-4%	9.5	11.3	-16%	9.9	12.1	-18%	11.2	13.6	-18%

Source: Company historic data, ED forecasts and analysis

Financials on "as reported basis" with 18-months in FY23

On the following pages, we show the Group's Income Statement, Cashflow and Balance Sheet on an "as reported" basis. This shows the years 2020(A) to 2022(A) with June year-ends, 2023(A) as an eighteen-month period to December 2023, and subsequent years with December year ends.

The historic financials to 2023(A) include the Energy Management business, whereas 2024(E) to 2026(E) show no ongoing contribution from Energy Management.

Income statement (Reported year ends: 18-month period in 2023)

Year End Dec, £m	**2021(A)**	**2022(A)**	**2023(A)**	**2024(E)**	**2025(E)**	**2026(E)**
Group revenue	13.6	22.1	45.6	25.5	31.5	36.5
COGS	-8.1	-9.1	-21.2	-17.9	-21.7	-25.4
% of revenue	*59%*	*41%*	*46%*	70%	69%	*70%*
Gross profit	**5.5**	**13.0**	**24.4**	**7.7**	**9.8**	**11.1**
% margin	*41%*	*59%*	*54%*	*30%*	*31%*	*31%*
Segmental admin expenses	-3.4	-8.3	-16.8	-5.0	-5.0	-5.1
% of revenue	*25%*	*38%*	*37%*	*20%*	*16%*	*14%*
Central admin expenses	-1.3	-1.6	-2.5	-1.9	-1.6	-1.8
% of revenue	*10%*	*7%*	*5%*	*8%*	*5%*	*5%*
Adj. EBITDA	**0.8**	**3.0**	**5.1**	**0.8**	**3.2**	**4.2**
% margin	*6%*	*14%*	*11%*	*3%*	*10%*	*12%*
Depreciation owned assets	-0.2	-0.5	-0.9	-0.7	-0.5	-0.5
Amortisation of Software	0.0	-0.2	-0.4	-0.4	-0.2	-0.2
Adj. EBITA	**0.6**	**2.3**	**3.8**	**-0.3**	**2.5**	**3.5**
% margin	*5%*	*11%*	*8%*	*-1%*	*8%*	*10%*
Net interest	-0.4	-0.3	-2.0	-0.4	-0.3	-0.3
Adj. PBT	**0.2**	**2.0**	**1.8**	**-0.7**	**2.2**	**3.2**
% margin	*1%*	*9%*	*4%*	*-3%*	*7%*	*9%*
Impairment of brands	0.0	-1.6	0.0	0.0	0.0	0.0
Amortisation of acq. intangibles	-0.1	-0.4	-0.7	0.0	0.0	0.0
Other exceptional items/ SBP	-0.2	-2.3	-3.9	-1.8	-0.5	-0.5
Reported PBT	**-0.2**	**-2.2**	**-2.8**	**-2.5**	**1.7**	**2.7**
Underlying tax	0.2	0.7	0.3	0.2	-0.5	-0.8
Underlying tax rate (%)	*-101%*	*-36%*	*-14%*	*25%*	*25%*	*25%*
Adj. PAT	**0.4**	**2.0**	**2.1**	**-0.6**	**1.6**	**2.4**

Source: Company historic data, ED forecasts and analysis

Note that our Adjusted EBITDA and Adjusted PBT figures exclude exceptional items and share based payment charges.

Balance sheet (Reported year ends: 18-month period in 2023)						
Year End Dec, £m	**2021(A)**	**2022(A)**	**2023(A)**	**2024(E)**	**2025(E)**	**2026(E)**
Non-Current assets						
PPE	0.1	0.5	0.3	0.3	0.3	0.3
Intangible assets	10.5	28.7	3.5	3.2	2.9	2.6
Right of use assets	0.6	0.8	0.5	0.5	0.5	0.5
Deferred tax asset	0.4	1.1	1.1	1.1	1.1	1.1
Trade & Other Receivables	0.2	0.0	0.8	0.8	0.8	0.8
Sub-total NCAs	**11.8**	**31.0**	**6.2**	**5.9**	**5.6**	**5.3**
Current Assets						
Inventories	0.4	0.8	0.2	0.2	0.2	0.2
Trade and other receivables	5.5	16.0	14.4	20.3	21.8	23.3
Financial assets at fair value	0.1	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents	3.3	1.8	0.6	9.5	9.9	11.2
Sub-total CAs	**9.4**	**18.7**	**15.2**	**30.0**	**31.9**	**34.7**
Disposal group held for sale	-	-	35.0	-	-	-
Total Assets	**21.1**	**49.7**	**56.4**	**35.9**	**37.5**	**40.0**
Non-Current Liabilities						
Lease liabilities	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Loans and borrowings	-1.2	-5.0	0.0	0.0	0.0	0.0
Other liabilities	-0.5	-2.3	0.0	0.0	0.0	0.0
Deferred tax liability	-0.4	-1.3	-0.9	-0.9	-0.9	-0.9
Provisions	0.0	-0.9	0.0	0.0	0.0	0.0
Sub-total NCLs	**-2.6**	**-9.8**	**-1.3**	**-1.3**	**-1.3**	**-1.3**
Current liabilities						
Trade and other payables	-7.8	-16.8	-15.2	-12.8	-12.8	-12.8
Lease liabilities	-0.3	-0.5	-0.2	-0.2	-0.2	-0.2
Loans and borrowings	-0.6	0.0	-8.0	0.0	0.0	0.0
Sub-total NCLs	**-8.7**	**-17.3**	**-23.4**	**-13.0**	**-13.0**	**-13.0**
Disposal group held for sale	-	-	-7.9	-	-	-
Total Liabilities	**-11.2**	**-27.1**	**-32.6**	**-14.3**	**-14.3**	**-14.3**
Net Assets	**9.9**	**22.5**	**23.8**	**21.6**	**23.2**	**25.7**

Source: Company historic data, ED forecasts and analysis

Cashflow Statement (Reported year ends: 18-month period in 2023)						
Year End Dec, £m	**2021(A)**	**2022(A)**	**2023(A)**	**2024(E)**	**2025(E)**	**2026(E)**
Adj. EBITA	0.6	2.3	3.8	-0.3	2.5	3.5
Depreciation owned assets	0.2	0.5	0.9	0.7	0.5	0.5
Amortisation of software	0.0	0.2	0.4	0.4	0.2	0.2
Gain on disposal of PPE	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals	-0.2	-3.9	-3.9	-1.8	-0.5	-0.5
Other non-cash	-0.6	1.1	0.4	0.5	0.5	0.5
Working Capital Movement	0.1	-7.1	-4.0	-5.9	-1.5	-1.5
Operating Cash Flow	**0.1**	**-6.9**	**-2.4**	**-6.4**	**1.7**	**2.7**
Net Interest	-0.3	-0.2	-0.6	-0.4	-0.3	-0.3
Tax	0.2	0.7	0.0	0.0	-0.1	-0.3
Net Operating Cash Flow	**-0.1**	**-6.4**	**-3.0**	**-6.8**	**1.3**	**2.0**
Purchase of PPE	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Proceeds from sale of PPE	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure on intangibles	-0.4	-0.4	-1.3	-0.5	-0.5	-0.5
Total Net Capex	-0.7	-0.7	-1.6	-0.8	-0.8	-0.8
Equity Free Cash Flow	**-0.7**	**-7.1**	**-4.6**	**-7.6**	**0.5**	**1.2**
M&A	-0.7	-8.5	0.0	25.0	0.0	0.0
Dividend	0.0	0.0	0.0	0.0	0.0	0.0
Share Issue	3.1	11.4	1.8	0.0	0.0	0.0
Leases	-0.2	-0.7	-0.7	-0.5	0.0	0.0
Other	-0.3	0.0	-0.3	0.0	0.0	0.0
Net Change in Net Cash/ (Debt)	**1.3**	**-4.9**	**-3.9**	**16.9**	**0.5**	**1.2**
Net Cash/ (Debt) - BOP	-0.5	0.8	-4.1	-8.0	8.9	9.3
Net Cash/ (Debt) - EOP	**0.8**	**-4.1**	**-8.0**	**8.9**	**9.3**	**10.6**

Source: Company historic data, ED forecasts and analysis

As discussed elsewhere in this note, our forecasts do not currently assume the benefit of future deferred consideration (estimated by management at £8m to £10m and capped at £20m).

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