eEnergy plc

EQUITY Development

Pipeline growth highlights commercial progress

30th September 2024

eEnergy's interims confirm a period of strong commercial progress, underpinning confidence in revenue growth prospects for H2'24 and into FY'25. As previously reported, H1 trading was subdued but the sales pipeline is showing genuine momentum (+25% in H1) with >£6m of contracted orders scheduled for the remainder of the year. We note an element of caution over the timing of project delivery, given the strong Q4 pipeline, but this should not detract from the underlying progress that is increasingly evident. Following the disposal of the Energy Management business, eEnergy has a strong balance sheet and, in our view, is well placed to play a leading role in the Net Zero transition.

H1 financials well flagged, evolution of leadership team

eEnergy's H1 results were well flagged in July's trading update and therefore contain no surprises. Core revenue was £6.0m, compared to £11.0m in the corresponding period last year, reflecting challenging market conditions and the impact of previous balance sheet constraints. The adjusted EBITDA loss was £2.0m (H1'23: +£0.5m) and net cash at the period end was £6.0m. John Gahan joins the Board as CFO on 1st October, taking over from Crispin Goldsmith, who will support the handover period as a consultant. John is a KPMG qualified Chartered Accountant and joins from Simbec-Orion Group. He was previously at Sprue Aegis plc.

Group transformed by Energy Management (EM) disposal

The highlight of the period was the disposal of the Group's EM division for £29.3m. The net proceeds are being used to reinvest in the high growth Energy Services division now that all previous debt facilities have been repaid. H2'24 has begun with strong trading momentum, building on the previously announced £5.2m solar contract with Spire Healthcare, the Group's largest to date, and the new £40m project funding facility with NatWest.

Strong start to H2, maintaining revenue guidance

H2 has started well, with a quarterly revenue record in Q3 (£9.2m). Revenue expectations for the remainder of FY'24 are underpinned by a contracted order book of £7.6m at the end of September, £6.4m of which is expected to convert to revenue in the current year. The Board has maintained its revenue guidance of between £25m and £26m. We trim our forecast to the bottom of this range (previously £25.5m) and apply an element of caution to margins and cash generation, noting some risk over timing. **As a reminder, 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	2023A	2024E	2025E	2026E
Sales	22.1	45.6	25.0	31.5	36.5
EBITDA	3.0	5.1	0.4	3.2	4.2
Adjusted PBT	2.0	1.8	-1.2	2.2	3.2
FD EPS (p)	0.6	0.6	-0.2	0.4	0.6
DPS (p)	0.0	0.0	0.0	0.0	0.0
Net Cash/(Debt)*	-4.1	-8.0	3.5	7.0	8.3
Net Cash/(Debt)**	-3.2	-7.4	4.0	8.9	10.3
P/E	9.5x	9.9x	-28.2x	16.1x	10.7x
EV/EBITDA	8.9x	6.1x	51.8x	5.1x	3.5x
EV/Sales	1.2x	0.7x	0.8x	0.5x	0.4x

*Source: ED analysis, IFRS 16 basis * including leases ** excluding leases, Share price as at 27/09/24*

Company Data

EPIC	EAAS.L
Price (last close)	5.9p
52 weeks Hi/Lo	7.9p/3.5p
Market cap	£22.9m
ED Fair Value	13p
Proforma net cash (Dec '24)	£4.0m
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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H1’24 Highlights

Financial and operational highlights

eEnergy’s H1 results were well flagged in July’s trading update and therefore contain no surprises. Core revenue (excluding the Energy Management business, which was divested early in the period) was £6.0m, compared to £11.0m in the corresponding period last year, reflecting challenging market conditions and the impact of previous balance sheet constraints.

Solar revenues continue to increase and accounted for 34% of revenue in H1’24. Gross margin for H1’24 was 19.2%, down from 32.5% in H2’23, reflecting the growth of solar (lower product margin business) as well as the temporary margin impact of the weaker balance sheet during FY23 (prior to the EM disposal). Underlying product margins improved during Q2 and are expected to show a strong recovery during H2 despite the increasing mix of solar revenues.

The adjusted EBITDA loss was £2.0m, compared to a £0.5m profit on the same basis for H1’23. Net cash at the period end was £6.0m (June ’23: Net debt: £7.4m).

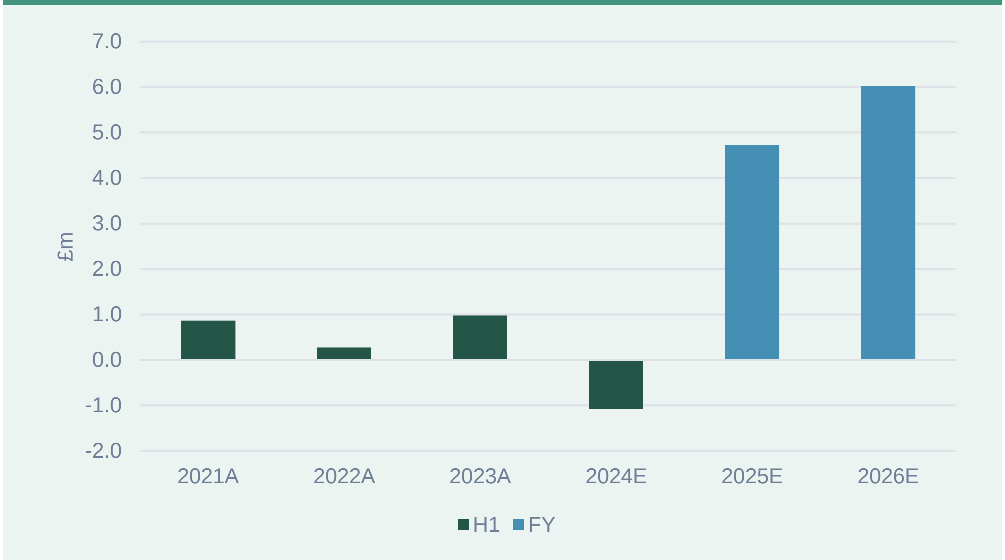
Energy Management disposal has transformed the Group

The clear strategic highlight of the period was the disposal of the Group’s Energy Management division for £29.3m. Significant progress has been made in streamlining and restructuring the business to focus on the high growth Energy Services division. Growth opportunities are apparent across all areas of the business, especially for solar multi-site opportunities and within the public sector.

Revenue growth has been constrained in recent periods by a lack of balance sheet headroom and firepower. The disposal of Energy Management for an initial £25m in cash immediately removed this constraint. The Group now has the working capital to tender for much larger contracts. Commercial progress in the period was epitomised by the £5.2m solar contract with Spire Healthcare, the Group’s largest to date, and a new £40m project funding facility with NatWest.

This is having a positive impact on the sales pipeline, which increased by 25% during the period. H2’24 has started with strong momentum, with record quarterly revenue for Q3, underpinning confidence in H2 expectations.

Energy Services EBITDA (H1:H2 analysis)



Source: Company historic data, ED forecasts and analysis

Evolution of the leadership team

eEnergy has also continued to invest in its leadership team with Nick Clark recently joining in the new role of Chief Operating Officer, John Gahan appointed as CFO and Andrew Lawley, previously Non-Executive Director, appointed as Non-Executive Chair.

Crispin Goldsmith will step down from the Board as CFO on 1st October and will move to a consultancy role to ensure a smooth handover process to John Gahan. John is a KPMG qualified Chartered Accountant and joins from Simbec-Orion Group. He was previously, until 2018, at Sprue Aegis plc, a £100m market cap AIM listed technology products business.

Encouraging outlook commentary

Strong H2 underway, busy Q4 in prospect

As previously signalled, H1'24 revenue of £6.0m (pro forma H1'23: £11.0m) implies a strong H2 weighting.Q3'24 revenue is forecast to be a record £9.2m and revenue expectations for the remainder of FY'24 are underpinned by a contracted order book of £7.6m at the end of September, £6.4m of which is expected to convert to revenue in the current year. The Board has therefore maintained its revenue guidance of between £25m and £26m.

We note a word of caution over the timing of project delivery within the outlook statement, given that several projects are scheduled for installation towards the end of the year, which inevitably carries some risk over disruption caused by adverse weather conditions. Any variation in revenue for the full year would be expected to have a corresponding impact on earnings. We trim our revenue forecast to the bottom of the given range (previously £25.5m) and apply an element of caution to margins and cash generation, noting the risk over timing, as summarised in the table below.

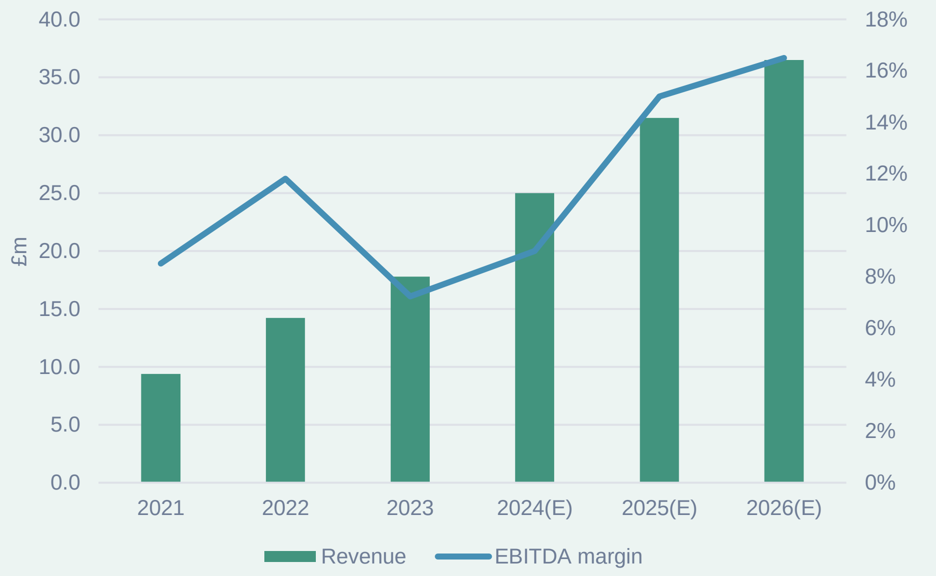
Revenue guidance maintained, applying caution to margin and cash profile

Year-end Dec, £m	2024E			2025E			2026E		
	New	Old	Change	New	Old	Change	New	Old	Change
Revenue	25.0	25.5	-2%	31.5	31.5	0%	36.5	36.5	0%
Energy Serv's EBITDA	2.3	2.7	-16%	4.7	4.7	0%	6.0	6.0	0%
Group EBITDA	0.4	0.8	-51%	3.2	3.2	0%	4.2	4.2	0%
PBT (underlying)	-1.2	-0.7	67%	2.2	2.2	0%	3.2	3.2	0%
EPS fully diluted p	-0.2	-0.1	65%	0.4	0.4	0%	0.6	0.6	0%
Net cash/ (debt)	3.5	8.9	-61%	7.0	9.3	-26%	8.3	10.6	-21%
Net cash ex. leases	4.0	9.5	-57%	8.9	9.9	-10%	10.3	11.2	-8%

Source: Company historic data, ED forecasts and analysis

Looking forward, we continue to see very exciting growth prospects for eEnergy as customers continue to advance their Net Zero strategies. We therefore continue to expect revenue and margins to increase substantially over the medium term.

Energy Services revenue and EBITDA margin (annualised to December)



Source: Company historic data, ED forecasts and analysis

Forecast summary

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	25.0	31.5	36.5
% growth	*51%*	*25%*	*40%*	*26%*	*16%*
Group	**27.6**	**30.5**	**25.0**	**31.5**	**36.5**
% growth	*70%*	*10%*	*-18%*	*26%*	*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	7.0	9.8	11.1
Group	**15.8**	**16.1**	**7.0**	**9.8**	**11.1**
% margin					
Energy Services	*35.5%*	*34.6%*	*28.0%*	*31.0%*	*30.5%*
Group	*57.1%*	*52.7%*	*28.0%*	*31.0%*	*30.5%*
% growth					
Energy Services	*54%*	*22%*	*14%*	*40%*	*14%*
Group	*86%*	*2%*	*-56%*	*40%*	*14%*
Segmental EBITDA					
Energy Management (Divested)	4.0	3.6	0.0	0.0	0.0
Energy Services	1.7	1.3	2.3	4.7	6.0
Central Costs	-1.9	-1.3	-1.9	-1.6	-1.8
Group	**3.7**	**3.6**	**0.4**	**3.2**	**4.2**
% margin					
Energy Services	*12%*	*7%*	*9%*	*15%*	*17%*
Group	*13%*	*12%*	*2%*	*10%*	*12%*
% growth					
Energy Services	*110%*	*-23%*	*75%*	*110%*	*27%*
Group	*194%*	*-4%*	*-89%*	*740%*	*33%*

Source: Company historic data, ED forecasts and analysis

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