

# ITM Power Plc

United Kingdom / Alternative Energy

London

Bloomberg: ITM LN

ISIN: GB00B0130H42

Update

**RATING****PRICE TARGET**

Return Potential

Risk Rating

**BUY****GBp 46.00**

31.6%

High

## SUCCESSSES IN GERMANY, THE NETHERLANDS, AND CANADA

Recent successes in the operating business show that ITM Power is gaining traction in various markets. In Germany, the company celebrated the ground breaking ceremony for its most prestigious project, the 10 MW Refhyne electrolyser at the Shell Rheinland refinery. In the Netherlands, ITM supplied a 1 MW electrolyser for Gasunie's HyStock green hydrogen plant, which was opened a few days ago. In Canada, ITM completed a feasibility study for a 300 MW power-to-gas plant in the Province of British Columbia. An updated DCF model yields a new price target of GBp 46 (previously: GBp 43). We reiterate our Buy rating.

**Ground breaking ceremony for 10 MW Refhyne project** The construction of the world's largest PEM electrolyser at Shell's Rheinland Refinery has started and is expected to be completed in the second half of 2020. The plant will produce up to 1,300 tons of hydrogen per year. The hydrogen will be generated using electricity instead of natural gas. If renewable power sources are used, the refinery's CO2 emissions will be significantly reduced. Project CAPEX amounts to €16m.

**Gasunie has opened 1 MW HyStock green hydrogen plant near Groningen in the Netherlands** The HyStock hydrogen plant converts 1 MW of sustainable electricity to green hydrogen. The installation started at the end of 2018 and was completed in May 2019, and is a first step in creating a hydrogen supply chain. The plant was opened by the Dutch King Willem-Alexander, which is an indication of the political importance of the project. The majority of the sustainable power will be delivered via TenneT's high-voltage electricity grid, enabling energy conversion between the high voltage electricity network and the gas transmission network. ITM's electrolyser is located at EnergyStock's Zuidwending salt cavern storage facility in northern Netherlands. Gasunie's aim is to achieve large-scale and profitable storage of hydrogen in the company's EnergyStock underground gas storage facilities in the near future.

(p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019E	2020E	2021E	2022E
Total income (GBP m)	9.23	14.10	16.56	23.44	36.65	56.79
Revenue (GBP m)	2.42	3.28	6.56	15.44	28.65	50.79
Y-o-y growth	n.a.	35.9%	99.8%	135.3%	85.6%	77.3%
EBIT (GBP m)	-3.55	-6.49	-8.57	-5.41	-1.31	3.27
EBIT margin	n.a.	-197.8%	-130.6%	-35.1%	-4.6%	6.4%
Net income (GBP m)	-3.78	-6.12	-8.04	-5.07	-1.37	2.76
EPS (diluted) (GBp)	-1.7	-2.1	-2.5	-1.6	-0.4	0.9
FCF (GBPm)	-5.85	-9.57	-15.17	-4.33	-3.09	-1.25
Net gearing	-11.9%	-57.3%	-19.0%	-4.0%	10.3%	14.4%
Liquid assets (GBP m)	1.56	20.40	5.24	0.90	1.82	1.57

### RISKS

The main risks are financing, Brexit, unfavourable regulation, technological innovation, and increasing competition.

### COMPANY PROFILE

ITM Power designs and manufactures integrated hydrogen energy systems for energy storage, clean fuel production, and renewable chemistry. The group's product offering is based on PEM technology and is scalable to 100 MW. ITM is headquartered in Sheffield, UK, and has ca. 170 employees.

### MARKET DATA

As of 01 Jul 2019

Closing Price	GBp 35.0
Shares outstanding	324.01m
Market Capitalisation	113.24m
52-week Range	19 / 37
Avg. Volume (12 Months)	517,231

Multiples	2018	2019E	2020E
P/E	n.a.	n.a.	n.a.
EV/Sales	28.3	14.2	6.0
EV/EBIT	n.a.	n.a.	n.a.
Div. Yield	0.0%	0.0%	0.0%

### STOCK OVERVIEW



### COMPANY DATA

As of 31 Oct 2018

Liquid Assets	GBP 15.60m
Current Assets	GBP 36.52m
Intangible Assets	GBP 0.49m
Total Assets	GBP 41.22m
Current Liabilities	GBP 10.92m
Shareholders' Equity	GBP 30.30m

### SHAREHOLDERS

JCB Research	12.6%
Allianz SE	11.0%
Hargreaves Peter	8.8%
Other	30.3%
Free Float	37.3%

**Renewable Hydrogen Feasibility Study for a 300 MW plant in British Columbia completed**

ITM has completed a techno-economic feasibility study for large-scale centralised production of renewable hydrogen in the Canadian Province of British Columbia (BC). The project was led by ITM Power with support from G&S Budd Consulting Ltd. and partners Mitsui & Co., Chiyoda Corporation, and BC Hydro. It was funded by the BC Government. The study commenced in April 2018 with the aim of examining the potential for large-scale production of renewable hydrogen in BC, which could be used domestically and for export to California and Japan. The study analysed over 10 potential locations for the practical installation and operational business cases for up to 300 MW of electrolysis paired with the liquid organic hydrogen carrier technology. The results of the study will be used by ITM Power, Mitsui & Co., and Chiyoda Corporation to assess the feasibility of a facility in BC which has the potential to be the world's largest hydrogen production facility.

**ITM is gaining traction in various markets** We view all three projects as first steps towards larger green hydrogen supply and demand structures. The emerging hydrogen economy could offer significant additional business potential for ITM.

**Cummins to acquire Hydrogenics** Interest in the green hydrogen sector has reached a new peak with the takeover of the Canadian fuel cell and electrolyser producer Hydrogenics. Cummins has offered \$15.00 per share in cash, representing an enterprise value of ca. \$290m. Cummins is a global player in the engine business with more than 60,000 employees and \$23.8 bn in revenue in 2018. The transaction is expected to close in the third quarter of 2019. In recent months, Bosch, the world's largest automotive supplier, and MAN Energy solutions, a global energy solutions provider, entered the hydrogen business (see our report on ITM Power as of 12 June 2019).

**Price target increased, Buy rating confirmed** An updated DCF model yields a new price target of GBp 46 (previously: GBp 43). We reiterate our Buy rating.



## VALUATION MODEL

DCF valuation model								
All figures in GBP '000	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Net sales	6,560	15,438	28,650	50,791	78,726	106,281	130,339	156,644
NOPLAT	-8,570	-5,412	-1,311	3,094	5,925	7,978	9,894	12,063
+ depreciation & amortisation	1,915	2,103	2,503	2,313	2,080	2,929	4,342	5,920
Net operating cash flow	-6,655	-3,309	1,192	5,406	8,005	10,907	14,236	17,983
- total investments (CAPEX + WC - grants)	-9,038	-1,362	-4,221	-6,321	-9,575	-12,439	-13,694	-15,031
Capital expenditures	-8,562	-10,107	-6,887	-5,739	-8,316	-10,444	-11,849	-13,087
Working capital	-6,476	3,745	-2,334	-4,582	-4,259	-3,995	-2,845	-1,944
Grants received	6,000	5,000	5,000	4,000	3,000	2,000	1,000	0
Free cash flows (FCF)	-15,693	-4,671	-3,029	-915	-1,570	-1,533	542	2,952
PV of FCF's	-15,693	-4,299	-2,522	-689	-1,070	-945	302	1,490

All figures in thousands	
PV of FCFs in explicit period (2019E-2033E)	18,280
PV of FCFs in terminal period	111,156
Enterprise value (EV)	129,436
+ Net cash / - net debt	20,403
+ Investments / minority interests	0
Shareholder value	149,839
Diluted number of shares	324,009
Fair value per share in GBP	46.2

WACC		WACC	Terminal growth rate						
			1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
Cost of equity	11.9%	6.5%	99.5	110.2	123.5	140.6	163.3	195.0	242.3
Pre-tax cost of debt	8.0%	7.5%	75.9	82.5	90.5	100.1	112.2	127.7	148.3
Tax rate	20.0%	8.5%	59.6	64.0	69.0	75.0	82.2	91.0	101.9
After-tax cost of debt	6.4%	9.5%	47.8	50.8	54.2	58.2	62.8	68.2	74.8
Share of equity capital	75.0%	10.5%	39.0	41.1	43.5	46.2	49.4	52.9	57.1
Share of debt capital	25.0%	11.5%	32.2	33.8	35.5	37.4	39.6	42.1	44.9
		12.5%	26.9	28.0	29.3	30.8	32.3	34.1	36.1
Price target in GBP	46.0	13.5%	22.6	23.5	24.5	25.6	26.7	28.0	29.4

\* for layout purposes the model shows numbers only to 2026, but runs until 2033



## INCOME STATEMENT

All figures in GBP '000	2017A	2018A	2019E	2020E	2021E
<b>Total income</b>	<b>9,230</b>	<b>14,100</b>	<b>16,558</b>	<b>23,438</b>	<b>36,650</b>
<b>Revenues</b>	<b>2,415</b>	<b>3,283</b>	<b>6,560</b>	<b>15,438</b>	<b>28,650</b>
Cost of goods sold	1,757	3,438	6,560	12,350	22,061
<b>Gross profit</b>	<b>658</b>	<b>-155</b>	<b>0</b>	<b>3,088</b>	<b>6,590</b>
S&M	1,528	1,455	1,710	1,400	1,500
G&A	2,202	3,086	3,710	3,500	3,700
R&D	2,023	1,792	2,350	2,200	2,200
Prototype production & engineering	2,615	4,144	4,800	4,400	3,500
Grant income	4,160	4,138	4,000	3,000	3,000
<b>Operating income (EBIT)</b>	<b>-3,550</b>	<b>-6,494</b>	<b>-8,570</b>	<b>-5,412</b>	<b>-1,311</b>
Net financial result	0	18	13	15	-146
<b>Pre-tax income (EBT)</b>	<b>-3,550</b>	<b>-6,476</b>	<b>-8,557</b>	<b>-5,397</b>	<b>-1,456</b>
Income taxes	230	-360	-513	-324	-87
Minority interests	0	0	0	0	0
<b>Net income / loss</b>	<b>-3,780</b>	<b>-6,116</b>	<b>-8,043</b>	<b>-5,073</b>	<b>-1,369</b>
<b>Diluted EPS (in GBp)</b>	<b>-1.7</b>	<b>-2.1</b>	<b>-2.5</b>	<b>-1.6</b>	<b>-0.4</b>
<b>EBITDA</b>	<b>-2,346</b>	<b>-4,782</b>	<b>-6,655</b>	<b>-3,309</b>	<b>1,192</b>
<b>Ratios</b>					
Gross margin	27.2%	-4.7%	0.0%	20.0%	23.0%
EBITDA margin on revenues	-97.1%	-145.7%	-101.4%	-21.4%	4.2%
EBIT margin on revenues	-147.0%	-197.8%	-130.6%	-35.1%	-4.6%
Net margin on revenues	-156.5%	-186.3%	-122.6%	-32.9%	-4.8%
Tax rate	-6.5%	5.6%	6.0%	6.0%	6.0%
<b>Expenses as % of revenues</b>					
S&M	63.3%	44.3%	26.1%	9.1%	5.2%
G&A	91.2%	94.0%	56.6%	22.7%	12.9%
R&D	83.8%	83.8%	83.8%	83.8%	83.8%
Prototype production & engineering	108.3%	126.2%	73.2%	28.5%	12.2%
<b>Y-Y Growth</b>					
Revenues	n.a.	35.9%	99.8%	135.3%	85.6%
Operating income	n.a.	n.m.	n.m.	n.m.	n.m.
Net income / loss	n.a.	n.m.	n.m.	n.m.	n.m.



## BALANCE SHEET

All figures in GBP '000	2017A	2018A	2019E	2020E	2021E
<b>Assets</b>					
<b>Current assets, total</b>	<b>14,846</b>	<b>39,558</b>	<b>33,723</b>	<b>26,367</b>	<b>31,405</b>
Cash and cash equivalents	1,558	20,403	5,236	904	1,817
Short-term investments	0	0	0	0	0
Receivables	12,528	18,500	27,408	24,109	27,473
Inventories	760	655	1,078	1,353	2,115
Other current assets	0	0	0	0	0
<b>Non-current assets, total</b>	<b>4,899</b>	<b>4,809</b>	<b>5,456</b>	<b>8,460</b>	<b>7,845</b>
Property, plant & equipment	4,519	4,454	4,928	7,755	7,029
Goodwill & other intangibles	380	355	529	705	815
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>19,745</b>	<b>44,367</b>	<b>39,179</b>	<b>34,827</b>	<b>39,250</b>
<b>Shareholders' equity &amp; debt</b>					
<b>Current liabilities, total</b>	<b>6,675</b>	<b>8,776</b>	<b>11,632</b>	<b>12,352</b>	<b>18,145</b>
Short-term debt	0	0	0	0	4,000
Accounts payable	6,666	7,928	10,784	11,504	13,297
Current provisions	9	848	848	848	848
Other current liabilities	0	0	0	0	0
<b>Long-term liabilities, total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Long-term debt	0	0	0	0	0
Deferred revenue	0	0	0	0	0
Other liabilities	0	0	0	0	0
<b>Minority interests</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Shareholders' equity</b>	<b>13,070</b>	<b>35,591</b>	<b>27,548</b>	<b>22,474</b>	<b>21,106</b>
Share capital	12,531	16,200	16,200	16,200	16,200
Capital reserve	61,930	86,631	86,631	86,631	86,631
Other reserves	-2,169	-1,902	-1,902	-1,902	-1,902
Treasury stock	0	0	0	0	0
Loss carryforward / retained earnings	-59,222	-65,338	-73,381	-78,455	-79,823
<b>Total consolidated equity and debt</b>	<b>19,745</b>	<b>44,367</b>	<b>39,179</b>	<b>34,827</b>	<b>39,250</b>
<b>Ratios</b>					
Current ratio (x)	2.22	4.51	2.90	2.13	1.73
Quick ratio (x)	2.11	4.43	2.81	2.02	1.61
Net debt	-1,558	-20,403	-5,236	-904	2,183
Net gearing	-11.9%	-57.3%	-19.0%	-4.0%	10.3%
Book value per share (in GBP)	0.06	0.12	0.09	0.07	0.07
Return on equity (ROE)	-28.9%	-17.2%	-29.2%	-22.6%	-6.5%



## CASH FLOW STATEMENT

All figures in GBP '000	2017A	2018A	2019E	2020E	2021E
<b>EBIT</b>	<b>-3,550</b>	<b>-6,494</b>	<b>-8,570</b>	<b>-5,412</b>	<b>-1,311</b>
Depreciation and amortisation	1,204	1,712	1,915	2,103	2,503
<b>EBITDA</b>	<b>-2,346</b>	<b>-4,782</b>	<b>-6,655</b>	<b>-3,309</b>	<b>1,192</b>
Changes in working capital	-3,076	-3,602	-6,476	3,745	-2,334
Other adjustments	374	379	527	339	-58
<b>Operating cash flow</b>	<b>-5,048</b>	<b>-8,005</b>	<b>-12,605</b>	<b>775</b>	<b>-1,200</b>
Investments in PP&E	-3,293	-8,622	-8,300	-9,798	-6,601
Investments in intangibles	-151	-76	-262	-309	-287
Grants received against purchases of PP&E	2,646	7,130	6,000	5,000	5,000
<b>Free cash flow</b>	<b>-5,846</b>	<b>-9,573</b>	<b>-15,167</b>	<b>-4,332</b>	<b>-3,087</b>
Acquisitions & disposals, net	4	1	0	0	0
<b>Investment cash flow</b>	<b>-794</b>	<b>-1,567</b>	<b>-2,562</b>	<b>-5,107</b>	<b>-1,887</b>
Debt financing, net	0	0	0	0	4,000
Equity financing, net	5,732	29,358	0	0	0
Dividends paid	0	0	0	0	0
Other financing	-267	-970	0	0	0
<b>Financing cash flow</b>	<b>5,465</b>	<b>28,388</b>	<b>0</b>	<b>0</b>	<b>4,000</b>
FOREX & other effects	45	29	0	0	0
<b>Net cash flows</b>	<b>-332</b>	<b>18,845</b>	<b>-15,167</b>	<b>-4,332</b>	<b>913</b>
Cash, start of the year	1,890	1,558	20,403	5,236	904
<b>Cash, end of the year</b>	<b>1,558</b>	<b>20,403</b>	<b>5,236</b>	<b>904</b>	<b>1,817</b>
<b>EBITDA/share (in GBp)</b>	<b>-1.1</b>	<b>-1.7</b>	<b>-2.1</b>	<b>-1.0</b>	<b>0.4</b>
<b>Y-Y Growth</b>					
Operating cash flow	n.a.	n.m.	n.m.	n.m.	n.m.
Free cash flow	n.a.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	n.a.	n.m.	n.m.	n.m.	n.m.

**FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY**

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	20 February 2019	21.6 GBP	Buy	43.0 GBP
2...1	↓	↓	↓	↓
2	12 June 2019	32.5 GBP	Buy	43.0 GBP
3	Today	34.95 GBP	Buy	46.0 GBP

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**PRICE TARGET DATES**

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The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

### ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

#### ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy <sup>1</sup>	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

<sup>1</sup> The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

### RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

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Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

### UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

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#### Legally required information regarding

- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

can be accessed through the following internet link: <http://firstberlin.com/disclaimer-english-link/>

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