

ITM Power Plc

United Kingdom / Alternative Energy

London

Bloomberg: ITM LN

ISIN: GB00B0130H42

**Trading & pipeline
update**
RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**GBp 43.00**

32.3%

High

STRONG RISE IN ORDER BACKLOG

ITM Power has published a trading & pipeline update. The order backlog reached a new high at GBP 45.1m. This is a 26% increase since February. According to preliminary figures, FY19 total income was in line with our forecast and rose 20% y/y to ca. GBP 17m. ITM currently has a portfolio of 34 projects. The ground-breaking ceremony for ITM's largest project, the 10 MW Shell "Refhynne" electrolyser, will take place on 25 June. Further advanced projects are four hydrogen refuelling stations (HRS) in the UK, and a bus HRS in France. We have observed increasing market activity in the hydrogen sector in recent months with global players such as Bosch and MAN entering the market and large utilities such as RWE and Amperion announcing plans to develop and construct 100 MW electrolysers. The increasing market activity is reflected in a growing tender opportunity pipeline for ITM. The pipeline has risen 38% since February to a record level of GBP 330m. The increased order backlog improves visibility for 2020 & 2021 and supports our growth forecasts. We confirm our Buy rating and the GBp 43 price target.

Record order backlog Since February 2019, the order backlog has increased 26% to GBP 45.1m. The backlog comprises GBP 29.0m (Feb 19: GBP 23.2m, +25%) of projects under contract and a further GBP 16.1m (Feb 19: GBP 12.5m, +29%) of awards in the final stages of negotiation.

Total income grew 20% in FY2019 Preliminary total income amounted to ca. GBP 17m and was in line with our forecast (FBe: GBP 16.6m). Total income comprises sales, grants recognised in the income statement and grants recognised on the balance sheet. ITM has not published the split. We estimate sales of GBP 6.6m, grants recognised in the income statement of GBP 4.0m and grants recognised on the balance sheet of GBP 6.0m. EBITDA amounted to GBP -6.7m (FY18: GBP -4.9m, see figure 1 overleaf) and was below our forecast of GBP -5.9m.

(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 11 Jun 2019

Closing Price	GBp 32.5
Shares outstanding	324.01m
Market Capitalisation	GBP 105.30m
52-week Range	GBp 19 / 37
Avg. Volume (12 Months)	509,465

Multiples	2018	2019E	2020E
P/E	n.a.	n.a.	n.a.
EV/Sales	25.9	12.9	5.5
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%

**Figure 1: Reported figures versus forecasts**

in GBPm	2019P	2019E	Delta	2018	Delta
Total income	17.00	16.56	2.7%	14.10	20.6%
EBITDA	-6.70	-5.85	-	-4.78	-

Source: First Berlin Equity Research, ITM Power Plc

Higher working capital requirement burdens balance sheet Deployed working capital increased from GBP 7.6m at the end of October 2018 to GBP 12.9m at the end of April 2019. The cash position declined from GBP 15.6m to GBP 5.2m. The reduced cash position lowers ITM's financial leeway. The higher working capital reflects increased business activity and involved procurement for the delivery of four HRS in the UK, a bus HRS in France, and materials for the 10 MW Shell Refhyne project and should partially unwind in H1/FY20 (May-October 2019) when cash is received.

Tender opportunity pipeline on record level ITM's tender opportunity pipeline has risen 38% since February to a record level of GBP 330m. The pipeline comprises 46 active commercial tender responses over the last 12 months with an average project size of GBP 7.2m versus GBP 6.5m in February 2019. The average project size has increased again and reflects higher demand for larger systems.

ITM and Shell extended hydrogen refuelling collaboration In May, ITM announced the extension of the refuelling collaboration with Shell. The new agreement will run until 2024, and covers the refuelling of all types of hydrogen vehicles; from passenger cars to commercial vehicles, including buses, trucks, trains and ships. Currently, ITM and Shell operate two HRS, two are under construction, and two are funded.

New production site to be completed in early 2020 ITM is currently developing a new larger production site in Sheffield. The site will have a 7 MW power supply allowing testing of larger systems. It will be used for product assembly, external product testing, and stack production, and will also contain a technology centre, and sales, marketing & corporate area. The new factory will increase manufacturing space fivefold, and production capacity from 100 MW to 300 MW, with the option to further increase it to 1,000 MW in the medium term. The layout of the new factory optimises product flow-through, and a new manufacturing process includes new automated technical processes, such as semi-automated stack component preparation. ITM has developed a number of options for the move to its new factory and expects that it will be completed in early 2020.

Hydrogen market is evolving rapidly Momentum in the hydrogen market has been high in recent months. Further global players have announced their market entry. Robert Bosch GmbH, the world's largest automotive industry supplier, will start serial production of fuel cells for cars and trucks and has entered into cooperation with the Swedish fuel cell stack producer PowerCell. Bosch envisages that over the long run, the mobile fuel-cell business is potentially worth billions of euros and estimates that 20% of all electric vehicles will be driven by fuel cells by 2030. In March, MAN Energy Solutions, a global energy solutions provider, entered the hydrogen market by acquiring 40% of H-TEC Systems, a German producer of electrolyzers.

In the utility sector, large electrolyser projects have been announced. The initiative GET H2, which comprises RWE Generation SE, Siemens, Enertrag, Stadtwerke Lingen, Hydrogenious Technologies, Nowega, Forschungszentrum Jülich and IKEM, plans to build-up hydrogen infrastructure in Emsland (north-western Germany). The core element is an electrolyser with a capacity of 105 MW to transform wind power into hydrogen. The German



power grid operator Amperion and the gas grid operator Open Grid Europe have launched the “hybridge” project. They plan to build an electrolyser in the 100 MW class at an intersection point of both grids in Emsland.

UK Committee on Climate Change: electrolyser capacity between 6 and 17 GW required in the UK by 2050 In May 2019, the Committee on Climate Change published the “Net Zero Technical Report”. This report accompanies the 'Net Zero' advice report which is the Committee's recommendation to the UK Government on the date for a net-zero emissions target in the UK. One implication for an energy system infrastructure with net zero CO₂ emissions is a significant increase in electrolyser capacity to 6-17 GW, depending on the load factor, by 2050. This implies an average build rate between ca. 200 and 570 MW of electrolysis capacity per annum for 30 years.

Forecast for 2020E unchanged We have adjusted our 2019E forecast for the preliminary figures. Given the increased order backlog, visibility for 2020E has increased. For the time being, we stick to our 2020E forecast (see figure 2) pending publication of the final 2019 figures which is expected by the end of July.

Figure 2: Revisions to forecasts

in GBPm	2019E			2020E			2021E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Total income	16.56	16.56	0.0%	23.44	23.44	0.0%	36.65	36.65	0.0%
Sales	6.56	6.56	0.0%	15.44	15.44	0.0%	28.65	28.65	0.0%
EBIT	-7.77	-8.57	-	-5.41	-5.41	-	-1.31	-1.31	-
<i>margin</i>	-118.4%	-130.6%	-	-35.0%	-35.1%	-	-4.6%	-4.6%	-
Net income	-7.29	-8.04	-	-5.07	-5.07	-	-1.37	-1.37	-
<i>margin</i>	-111.1%	-122.6%	-	-32.8%	-32.9%	-	-4.8%	-4.8%	-
EPS (diluted) in GBp	-2.2	-2.5	-	-1.6	-1.6	-	-0.4	-0.4	-

Source: First Berlin Equity Research, ITM Power Plc

Buy reiterated at unchanged price target An updated DCF model still yields a GBp 43 price target. We confirm our Buy recommendation.



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	-4,259	-2,492	-679	-1,052	-926	296	1,453

All figures in thousands	
PV of FCFs in explicit period (2019E-2033E)	16,842
PV of FCFs in terminal period	102,519
Enterprise value (EV)	119,361
+ Net cash / - net debt	20,403
+ Investments / minority interests	0
Shareholder value	139,764
Diluted number of shares	324,009
Fair value per share in GBP	43.1

WACC		Terminal growth rate							
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	
Cost of equity	12.3%	6.8%	91.3	100.5	111.8	126.0	144.6	169.7	205.7
Pre-tax cost of debt	8.0%	7.8%	70.3	76.1	82.9	91.3	101.5	114.4	131.2
Tax rate	20.0%	8.8%	55.5	59.4	63.9	69.1	75.4	82.9	92.2
After-tax cost of debt	6.4%	9.8%	44.7	47.4	50.5	54.0	58.1	62.8	68.5
Share of equity capital	75.0%	10.8%	36.6	38.5	40.7	43.1	45.9	49.1	52.8
Share of debt capital	25.0%	11.8%	30.3	31.7	33.3	35.1	37.0	39.2	41.8
		12.8%	25.4	26.4	27.6	28.9	30.3	31.9	33.7
		13.8%	21.4	22.2	23.1	24.1	25.1	26.3	27.6
Price target in GBP	43.0								

* 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
Total income	9,230	14,100	16,558	23,438	36,650
Revenues	2,415	3,283	6,560	15,438	28,650
Cost of goods sold	1,757	3,438	6,560	12,350	22,061
Gross profit	658	-155	0	3,088	6,590
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
Operating income (EBIT)	-3,550	-6,494	-8,570	-5,412	-1,311
Net financial result	0	18	13	15	-146
Pre-tax income (EBT)	-3,550	-6,476	-8,557	-5,397	-1,456
Income taxes	230	-360	-513	-324	-87
Minority interests	0	0	0	0	0
Net income / loss	-3,780	-6,116	-8,043	-5,073	-1,369
Diluted EPS (in GBp)	-1.7	-2.1	-2.5	-1.6	-0.4
EBITDA	-2,346	-4,782	-6,655	-3,309	1,192
Ratios					
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%
Expenses as % of revenues					
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%
Y-Y Growth					
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
Assets					
Current assets, total	14,846	39,558	33,723	26,367	31,405
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
Non-current assets, total	4,899	4,809	5,456	8,460	7,845
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
Total assets	19,745	44,367	39,179	34,827	39,250
Shareholders' equity & debt					
Current liabilities, total	6,675	8,776	11,632	12,352	18,145
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
Long-term liabilities, total	0	0	0	0	0
Long-term debt	0	0	0	0	0
Deferred revenue	0	0	0	0	0
Other liabilities	0	0	0	0	0
Minority interests	0	0	0	0	0
Shareholders' equity	13,070	35,591	27,548	22,474	21,106
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
Total consolidated equity and debt	19,745	44,367	39,179	34,827	39,250
Ratios					
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
EBIT	-3,550	-6,494	-8,570	-5,412	-1,311
Depreciation and amortisation	1,204	1,712	1,915	2,103	2,503
EBITDA	-2,346	-4,782	-6,655	-3,309	1,192
Changes in working capital	-3,076	-3,602	-6,476	3,745	-2,334
Other adjustments	374	379	527	339	-58
Operating cash flow	-5,048	-8,005	-12,605	775	-1,200
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
Free cash flow	-5,846	-9,573	-15,167	-4,332	-3,087
Acquisitions & disposals, net	4	1	0	0	0
Investment cash flow	-794	-1,567	-2,562	-5,107	-1,887
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
Financing cash flow	5,465	28,388	0	0	4,000
FOREX & other effects	45	29	0	0	0
Net cash flows	-332	18,845	-15,167	-4,332	913
Cash, start of the year	1,890	1,558	20,403	5,236	904
Cash, end of the year	1,558	20,403	5,236	904	1,817
EBITDA/share (in GBp)	-1.1	-1.7	-2.1	-1.0	0.4
Y-Y Growth					
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	21.6GBp	Buy	43.0GBp
2...1	↓	↓	↓	↓
2	Today	32.50GBp	Buy	43.0GBp

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PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

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 ¹	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%

¹ 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.

INVESTMENT HORIZON

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.

SUBJECT TO CHANGE

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