# Plutus PowerGen PLC

**Stock Data**

| | |
|---|---|
| Share Price: | 0.65p |
| Market Cap.: | £5.4m |
| Shares in issue: | 825.3m |

**Company Profile**

| | |
|---|---|
| Sector: | Power generation |
| Ticker: | PPG |
| Exchange: | AIM |

**Activities**

Plutus PowerGen is an AIM quoted power generation company focused on the development, construction and operation of highly flexible standby power generation sites in the UK.

**Share price performance**


Source: LSE

**Turner Pope contact details**

Turner Pope Investments (TPI) Ltd
6th Floor
Becket House
36 Old Jewry
London
EC2R 8DD

Tel: 0203 621 4120
Email: info@turnerpope.com
Web: www.turnerpope.com

**Attention is drawn to the disclaimers and risk warnings at the end of this document.**

This is a non-independent marketing communication. The analyst who has prepared this report is aware that TPI has a relationship with the company covered in this report. Accordingly, it has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

**TPI acts as joint broker to Plutus PowerGen PLC.**

**Retail clients (as defined by the rules of the FCA) must not rely on this document.**

**Barney Gray** Research analyst
Tel: 0203 621 4120
barney@turnerpope.com

**Plutus PowerGen is focused on the development, construction and operation of highly flexible standby energy generation projects and 'gas peakers' in the UK. With current capacity of 120 MW over six locations, Plutus' green fuel-fired 'FlexGen' sites are utilised as a highly reliable source of temporary power provision during periods of peak electricity demand. However, in response to several regulatory and commercial factors, Plutus has outlined a shift in its core strategy to focus on higher margin gas-fired operations which could add a further 300 MW to current capacity in addition to a significant boost to long term group revenue, profit and the balance sheet.**

Plutus currently holds a portfolio of investments in nine electricity generating investment companies within which six sites possess annual capacity of 120 MW (20 MW per site). The company's average holding is 45.2% with its partner, Rockpool Investments holding the balance in each investment vehicle. The last three companies co-invested with Rockpool are sharing one 20 MW gas peaker site and this will be commencing construction in the New Year. When completed, Plutus will have an interest in 140MW of generating capacity.

For each investment subsidiary, Rockpool provides equity financing (c.50% of the development cost) from its internal client base with additional debt financing provided by third party lenders such as RBS. Plutus has management contracts for each entity and is paid fees for a range of services including site identification, planning, construction management, connection to the grid and ongoing site management at each location.

The equity financing portion for all six FlexGen sites benefitted from EIS related tax benefits. However, this three year holding period for these assets under EIS rules has now expired and the portfolio of FlexGen interests are to be tendered for sale formally during 2019.

In light of market developments, Plutus has outlined a strategic shift towards developing higher margin gas-fired power projects. At an estimated average cost of £12.5m per site, gas fired gas powered sites will be more expensive to develop than the existing green fuel fired installations. However, gas fired sites run for considerably more hours per annum with greater emphasis on merchant sales and strong Power Purchase Agreements and are likely to provide considerably higher revenue and EBITDA than existing FlexGen sites.

Plutus expects to hold a majority interest in each new gas-powered site in order that the company can consolidate the income generated and the assets on the balance sheet which will be considerably more transparent to investors than the existing sites that are held as investments. The company has agreed a loan arrangement with an EPC (Engineering, Procurement and Construction) provider for mezzanine loan finance for up to 10% of the capital costs per gas peaker site.

Plutus have also received indicative terms from an asset finance institution for an initial £25 million and are negotiating with other equity and asset finance providers for a suite of finance to enable Plutus to build out up to 300MW of gas peakers over the next three years from 2019. With this new business model, Plutus already has 40 MW of gas-powered capacity under site assembly in-house with a view to entering planning in the next few months.

**With £0.5m raised through a placing of 83.3 million new shares successfully completed on 14 November 2018, Plutus now has additional funds with which to expedite its strategy. As such, we expect that news flow will accelerate over the next six months as discussions with several potential financial partners come to fruition. This process will be enhanced significantly should the company also achieve the ascribed valuations for its Rockpool interests through disposals during 2019. Plutus is also investigating the possibility of acquiring the FlexGen assets rather than outright sale.**

# Introduction to Plutus PowerGen

Plutus PowerGen (Plutus) is an AIM quoted power company focused on the development and operation of flexible energy generation and gas peaker projects in the UK. At present, the company operates 120 MW of power generating capacity comprised of six green fuel fired 20 MW power projects ('FlexGen' sites) in the UK. Plutus has an interest in three additional companies co-invested with Rockpool which together are expected to invest in one additional gas peaker site.

In this regard, Plutus is realigning the company's longer term emphasis towards the development of higher margin gas-fired power generating operations which could add a further 300 MW to Plutus' existing capacity. The group's experienced management team, with broad expertise in both the energy sector and investment sectors (see Appendix for additional details), is already advanced with 40 MW of potential gas sites under site assembly in-house with a view to entering planning over the next few months.

## Current business model

To date, Plutus has established a multi-revenue stream business model funded by a combination of equity and asset finance through a portfolio of dedicated investments. The company operates a largely limited dilution financial model and sets up a dedicated entity in the form of an investment company for each of its FlexGen sites into which external investments may be attracted. Plutus' portfolio of investments in nine electricity generating investment companies is outlined in the table below. The company's average investment is 45.2% with its partner, Rockpool Investments holding the balance and majority holding in each entity.

**Plutus' existing investment portfolio**

| Investment company | Shares held | Location | Status |
|---|---|---|---|
| Attune Energy Limited | 45.5% | Plymouth | 20 MW operational? |
| Flexible Generation Limited | 44.9% | ? | ? |
| Balance Power Limited | 44.9% | ? | ? |
| Equivalence Energy Limited | 45.0% | ? | ? |
| Precise Energy Limited | 45.1% | ? | ? |
| Valence Power Limited | 44.7% | ? | ? |
| Portman Power Limited | 45.3% | Ipswich | ? |
| Reliance Generation Limited | 45.6% | ? | ? |
| Selectgen Limited | 45.7% | ? | ? |

Source: Company

**Site financing**

The typical financing structure for each FlexGen site within the Plutus/Rockpool portfolio is based on £3.0m-£3.5m in equity invested by clients of Rockpool in addition to £2m-£3m of debt financing provided by a third party lender. In the case of the Plymouth site (Attune Energy Ltd), the debt element was provided by RBS plc (Lombard). For the sites outlined above, the equity financing element received assurance from HMRC that it will benefit from EIS-related tax benefits. Such benefits include tax relief of up to 30% on qualifying investments up to £1.0m. It should be noted that with the three-year holding period under EIS rules having now expired for all of the FlexGen sites and the portfolio is soon to be put up for sale.

# Sites address short term temporary power demand

Plutus' FlexGen sites use established and reliable technology based on containerised generators which can be fired with green fuel. The FlexGen sites are not configured to deliver a constant flow of power to the local grid; rather their function is to be used as a highly reliable source of temporary power during periods of peak electricity demand. Plutus' unmanned sites can be switched on rapidly during periods of high demand, reaching full output within 60 seconds in order to address grid shortfalls. This requirement has become increasingly acute following the increasing share of intermittent renewable power, such as wind and solar, in the UK's power generation mix over recent years.

Each site possesses an annual generating capacity of 20 MW which is considered optimal given its compatibility with local planning thresholds and the fact that emissions from such sites fall within European and UK emission thresholds, thereby reducing compliance costs. Examples of the scale and minimised local impact of two of Plutus' sites is in the photographs of the company's Ipswich and Crumlin sites below.

**Plutus' powergen sites at Ipswich and Crumlin**

Source: Company

**Financial model limits shareholder dilution**

Plutus model of establishing a dedicated entity for each powergen site is designed to limit medium term dilution for existing shareholders in the company. Given that, under accounting rules, Plutus must hold its interests in each entity as investments on its balance sheet, the company's share of the assets that it co-owns with Rockpool would be some £12.5m greater than is disclosed in the company's balance sheet (at 30 April 2018, investments were valued at a total cost of £0.152m on the group balance sheet).

On a consolidated basis, the FlexGen sites generated combined revenue of £6.835m in the 12 months ended 30 April 2018, which would have provided £3.04m of revenue and more than £1.6m of EBITBA to the company if Plutus were permitted under accounting rules to consolidate this income. However, under the current agreement with Rockpool, Plutus receives a management fee for the combined sites which has totalled £1.35m in both 2018 and 2017. At present this is sufficient to cover group administrative and other operating expenses. However, to date, Plutus has small reported annual operating losses which are largely attributable to cash neutral transactions with in the income statement such as share option provisions and the write off of development sites not being taken forward.

## Project revenue streams

As the previous discussion indicates, each project site has exposure to several revenue streams from National Grid and other energy suppliers. These include:

- **Short Term Operating Reserve (STOR):** This is a mechanism used by National Grid to balance the UK's power supply at short notice. STOR allows the required electricity supply to be decreased (by incentivising large customers to reduce demand) or increased by calling on a pool of standby generators such as Plutus. Under two-year contracts, National Grid pays STOR providers for making their capacity available in addition. This is in addition to payments for the delivery of electricity at times of peak demand.
- **Firm Frequency Response (FFR) and Fast Response (FR):** This service is offered by National Grid to manage system frequency, the system-wide signal that indicates whether energy supply exceeds demand of whether there is a supply deficit. For example, to participate in FFR, for which suppliers are paid for their availability and utilisation, generators must be able to deliver a minimum capacity of 10 MW and be capable of responding within 30 seconds and for sufficient duration to address the demand peaks.
- **Triad:** This is a scheme under which National Grid charges the energy suppliers significant sums for their use of the high voltage transmission network during Triad periods. These periods relate to the three half-hour periods of highest demand in a year (typically identified after the winter period). This is mechanism for National Grid to cover its costs at times of peak demand. Through power purchase agreements (PPA), energy supply companies pay flexible power generators for supplies during times of peak demand both for the power and also for Triad cost avoidance given that flexible supplies reduce demand on the transmission network. Triad is being phased out with the last 100% Triad occurring in winter 2017, with 66% of triad being available in winter 2018, 33% in winter 2019 and the residual thereafter being around 20% depending on the location. Triads had been rising quite quickly and the residual is expected to continue to do so in the future.
- **Power Purchase Agreements (PPA):** These straightforward agreements relate to the sale of generated power to larger energy suppliers when operating with the objective of avoiding Triad payments to National Grid. These agreements underpin long term revenues and are typically of 5+ years in duration.
- **Capacity Markets (CM):** This mechanism provides financial incentives to bring forward new investment while maximising existing generation capabilities. CM is technology neutral implying that the lowest cost technologies that guarantee capacity will be awarded 1, 3 and 15 year contracts depending on the capex incurred. Successful generators will benefit from a regular and predictable revenue stream for every hour they are available. This obligation also implies that providers face penalties if they cannot delivery capacity when required. The company enjoys a blend of 15 year £20,000 per MW contracts on its Flexgen sites, index linked from award.
- **Management contracts:** As outlined previously, Plutus has management contracts with each Rockpool investor-funded power generation site. Plutus is paid ongoing management fees a range of services including site identification, obtaining planning permission, site construction management, connection to the grid and the ongoing operation of each site.

## Key relationships

Plutus maintains several key commercial relationships in regard to securing land for development sites, asset funding and grid connection. The company works with a range of property developers in order to secure suitable sites in the south of the UK. In addition, the company is able to secure attractive sites through its relationships with land owners including London & Devonshire Trust and Associated British Ports. Plutus also has a formal relationship with Reliance Energy, to source gas peaker sites.

# A refocused strategy

Plutus is instigating a strategic shift towards the development of higher margin gas-powered energy generation operations (‘gas peakers’). This strategy is designed to focus on providing the company with more substantial additional revenue streams over the longer term together with a much-strengthened balance sheet.

From November 2015, EIS tax relief was closed off to new standby power generation projects and Plutus outlines that future projects will be held in separate subsidiary companies, in which Plutus will seek to obtain an interest of up to 80% in each.

With respect to the company’s existing FlexGen sites, Plutus’ strategy alongside its partner Rockpool is to either sell these sites or make Rockpool an offer for the c.55% interests that Plutus does not already own. This sales process has not yet commenced formally and the company expects to do so over the course of 2019.

## Key commercial drivers

**Reduced Triad payments**

All Plutus gas powered sites will generate revenue from the sources outlined in the previous section of this report. However, the company notes that OFGEM, the UK government energy regulator is enforcing its decision to step down Triad payments. The last 100% payment was in the last winter season 2017/18 (from 1 November 2017 to 28 February 2018). This falls to 66% in 2018/19 and reduces further to 33% in 2019/20. Although Plutus expects to ultimately receive 20% of the original Triad payment for its sites, all six FlexGen sites hit the Triads available to them in 2017/18 and revenue from this alone was approximately £5m, representing the majority of the total revenue generated.

**New emissions rules**

With regards to Plutus’ existing FlexGen sites, the company also notes the added difficulties represented by new emissions rules introduced by DEFRA through its MCPD (Medium Combustion Plant Directive) which came into force in January 2018. These new regulations are expected to provide 43% of the sulphur dioxide emissions reduction, 9% of the particulate matter reduction and 22% of the nitrogen oxide emissions reduction in order to meet the UK’s 2030 targets.

Consequently, adjustments to Plutus’ FlexGen sites including the retrofitting of catalytic reduction systems are being made so that emissions from its six plants comply with the new regulations. This is expected to cost £300,000 - £500,000 per site although each operating company has sufficient cash to implement these measures in a timely fashion.

# A focus on gas-powered generation

Plutus is now concentrating on the development of gas fuelled power generation and 40 MW (2 x 20 MW) of potential capacity is under in-house site assembly with a view to entering planning in the upcoming months. In addition to this, Plutus has a long term pipeline of opportunities at various stages of development amounting to a further 300 MW subject to planning and financing.

Rockpool has already agreed to develop one 20 MW gas-powered site which has planning approval, existing connections, an option to lease and Capacity Mechanism. Plutus expects this to complete soon at which point the company will be able to commence the development of the site.

**Gas site characteristics**

In contrast to the existing six FlexGen sites, gas powered sites run for considerably more hours per annum and these ‘gas peakers’ (gas powered sites generally run at periods of high energy demand) will sell electricity generated over 1,250 - 2,500 hours annually, which represents considerably more hours than the existing green fuel fired sites.

With far more emphasis on Power Purchase Agreements and more steady revenue, gas powered energy generation puts far less emphasis on generating power during Triad periods which have historically provided the majority of annual site revenue.

The company expects that flexible gas peakers will generate considerably higher revenue and EBITDA than the existing FlexGen sites and the company expects each site to be profitable on an annualised basis when operational.

**Funding requirements**

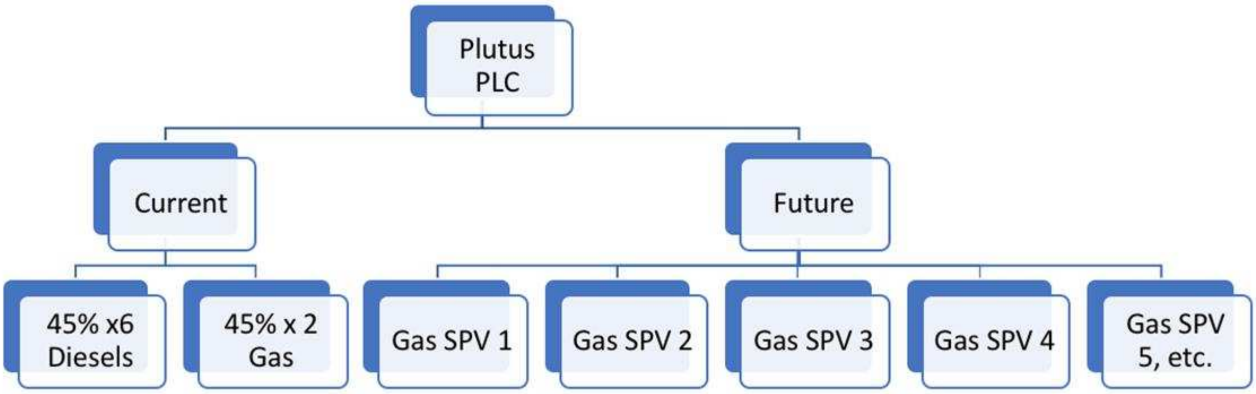
With a view to holding a majority equity interest in its new gas powered sites, an EPC (Engineering, Procurement and Construction) company has offered to provide mezzanine loan finance, subject to contract, for up to 10% of the capital costs per gas peaker site. The balance of funding would be expected to be derived from asset finance for 60%-70% of the total and equity/mezzanine finance for the remaining 20%. The company estimates that the average site cost will be approximately £12.5m to develop. This is considerably higher than the average cost of a FlexGen site. However, this will be more than offset by significantly higher revenue and EBITDA which imply strong IRRs for each project.

Plutus has agreed non-binding terms from an asset finance institution for an initial £25m facility. The company is also engaged in ongoing discussions with other potential lenders which will enable the company to expedite new gas powered facilities while limiting dilution to existing shareholders.

We expect that Plutus will continue to manage each gas powered project via an SPV (Special Purpose Vehicle). However, unlike the Rockpool investments, these assets will be consolidated into the company’s accounts providing a significant boost to existing revenue and the balance sheet.

Plutus intends to build and operate a portfolio of projects totalling 300 MW within a five year window. After completion and full operational capacity later in this cycle, would anticipate that the company seeks an exit through disposal in year five and beyond.

**Expected company structure**




Source: Company

# Financial summary

Plutus currently generates revenue £1.35m in the form of management fees for each of its nine FlexGen sites (£150,000 per site). As outlined previously, these sites generated consolidated revenue of £6.835m and an EBITDA of £3.645m in the financial year ended April 2018 although Plutus' minority holding could not be consolidated into the company's year-end accounts.

Plutus reported a loss before tax of almost £0.6m in the last financial year. However, after adding back more than £0.3m of share based payments and a positive working capital contribution, operating cash outflow was a very modest £50,523.

**Cash flow and balance sheet**

Following the exercise of 20 million warrants at a price of 0.9p per share in May 2017, group cash flow was boosted by £180,000 in the last financial year providing the company with a modest £64,807 improvement in the cash position as of 30 April 2018 (see table below). The balance sheet was strengthened further in November 2017 with the conversion of £100,000 of loan notes at a price of 0.8p per share, leaving only £100,000 of interest bearing outstanding notes on the balance sheet as of 30 April 2018.

**Recent fund raising**

On 14 November 2018, Plutus raised £500,000 of gross proceeds through the issue of just over 83.3 million new shares at 0.6p per share through its new joint broker, Turner Pope Investments. These funds have been earmarked for the development pf wholly owned gas peaker sites and for general working capital purposes. With this raising, Plutus also issued an additional 18.0 million shares at the issue price of 0.6p in lieu of fees.

Consequently, Plutus now has 825.3 million shares in issue. Potential dilution amounts to 9.54 million outstanding options at a price of 0.675p and a further 60.0 million options priced at 1.485p of which 50.0m million are exercisable. These options have a 10-year life and expire in March 2023 and May 2027 respectively.

**Five year financial summary**

| Year ended April<br>Item | FY 2014<br>GBP | FY 2015<br>GBP | FY 2016<br>GBP | FY 2017<br>GBP | FY 2018<br>GBP |
|---|---|---|---|---|---|
| Revenue | 0 | 87,500 | 887,500 | 1,350,000 | 1,350,000 |
| Profit before tax | -338,727 | -1,311,427 | -407,776 | -201,501 | -567,183 |
| Basic EPS (p) | -0.23 | -0.32 | -0.07 | -0.03 | -0.08 |
| Net cash used in operations | -338,727 | -1,311,427 | -407,776 | 65,001 | -50,523 |
| Interest bearing debt | 280,767 | 181,675 | 193,363 | 200,000 | 100,000 |
| Cash | 6,897 | 320,485 | 22,608 | 71,609 | 136,416 |

Source: RNS, Company

# Appendix - Board of Directors

**Charles Tatnall - Executive Chairman**

Charles advises and raises funds for small and medium sized enterprises. He has held a number of positions with public companies in North America and Canada, including co-founder and principal of BioProgress Technology Ltd which was quoted on NASDAQ OTC and later migrated to AIM. He also founded Maceworth Ltd, one of the largest corporate entertainment companies in the UK at the time.

**James Longley - Interim CEO and CFO**

James is an FCA who, after roles at Arthur Andersen, Creditanstalt-Bankverein and Touche Ross Corporate Finance, co-led the £10m MBI of The Wilcox Group in 1990 and was co-founder, director and chief financial officer of both BioProgress Technology Intl Inc., listed on NASD and AIM; and private equity backed PhotoBox, Europe's leading online photo-finishing business which acquired Moonpig.com in 2011 and the group was subsequently sold for £400m in 2016. He continues to act for and invest in small to medium sized businesses.

**Paul Lazerevic - COO**

Paul was founder director and CEO of Fulcrum Power, a STOR business. He has a long track record in the energy industry previously being CEO of a grid balancing technology company. Prior to that, he was head of corporate sales at RWEnpower, responsible for a £1.5bn operation. He spent 10 years at ExxonMobil where his experience varied from managing the design and construction of refinery power generation in the USA and Far East to setting up a gas trading operation in the UK.

**Tim Cottier- Non-executive Director**

Tim is a Chartered Accountant who has spent many years in the corporate finance, real estate and green energy sectors. He is currently CEO of Kinloch Corporate Finance, a corporate advisory company based in London and Leeds which specialises in capital raising, private equity, venture capital and M&A activities within the SME sector dealing with transactions from £1m to £50m. He is involved with a number of sustainable energy projects as adviser and in particular, the waste to energy sector.

*Note to reader: Unless otherwise stated, factual information in the note has been sourced from the company and opinions are those of the author.*

**THIS DOCUMENT IS NOT FOR PUBLICATION, DISTRIBUTION OR TRANSMISSION INTO THE UNITED STATES OF AMERICA, JAPAN, CANADA OR AUSTRALIA.**

**Conflicts**

This is a non-independent marketing communication under the rules of the Financial Conduct Authority (“FCA”). The analyst who has prepared this report is aware that Turner Pope Investments (TPI) Limited (“TPI”) has a relationship with the company covered in this report. Accordingly, the report has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing by TPI or its clients ahead of the dissemination of investment research.

TPI manages its conflicts in accordance with its conflict management policy. For example, TPI may provide services (including corporate finance advice) where the flow of information is restricted by a Chinese wall. Accordingly, information may be available to TPI that is not reflected in this document. TPI may have acted upon or used research recommendations before they have been published.

**Risk Warnings**

Retail clients (as defined by the rules of the FCA) must not rely on this document.

Any opinions expressed in this document are those of TPI’s research analyst. Any forecast or valuation given in this document is the theoretical result of a study of a range of possible outcomes and is not a forecast of a likely outcome or share price.

The value of securities, particularly those of smaller companies, can fall as well as rise and may be subject to large and sudden swings. In addition, the level of marketability of smaller company securities may result in significant trading spreads and sometimes may lead to difficulties in opening and/or closing positions. Past performance is not necessarily a guide to future performance and forecasts are not a reliable indicator of future results.

AIM is a market designed primarily for emerging or smaller companies and the rules of this market are less demanding than those of the Official List of the UK Listing Authority; consequently AIM investments may not be suitable for some investors. Liquidity may be lower and hence some investments may be harder to realise.

**Specific disclaimers**

TPI acts as joint broker to Plutus PowerGen PLC (“Plutus”) which is listed on the AIM Market of the London Stock Exchange (“AIM”). TPI’s private and institutional clients may hold, subscribe for or buy or sell Plutus’ securities.

This document has been produced by TPI independently of Plutus. Opinions and estimates in this document are entirely those of TPI as part of its internal research activity. TPI has no authority whatsoever to make any representation or warranty on behalf of Plutus.

**General disclaimers**

This document, which presents the views of TPI’s research analyst, cannot be regarded as “investment research” in accordance with the FCA definition. The contents are based upon sources of information believed to be reliable but no warranty or representation, express or implied, is given as to their accuracy or completeness. Any opinion reflects TPI’s judgement at the date of publication and neither TPI nor any of its directors or employees accepts any responsibility in respect of the information or recommendations contained herein which, moreover, are subject to change without notice. Any forecast or valuation given in this document is the theoretical result of a study of a range of possible outcomes and is not a forecast of a likely outcome or share price. TPI does not undertake to provide updates to any opinions or views expressed in this document. TPI accepts no liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection with this document (except in respect of wilful default and to the extent that any such liability cannot be excluded by applicable law).

The information in this document is published solely for information purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. The material contained in the document is general information intended for recipients who understand the risks associated with equity investment in smaller companies. It does not constitute a personal recommendation as defined by the FCA or take into account the particular investment objectives, financial situation or needs of individual investors nor provide any indication as to whether an investment, a course of action or the associated risks are suitable for the recipient.

This document is approved and issued by TPI for publication only to UK persons who are authorised persons under the Financial Services and Markets Act 2000 and to professional clients, as defined by Directive 2004/39/EC as set out in the rules of the Financial Conduct Authority. This document may not be published, distributed or transmitted to persons in the United States of America, Japan, Canada or Australia. This document may not be copied or reproduced or re-distributed to any other person or organisation, in whole or in part, without TPI’s prior written consent.