Stock Data

Share Price	6.75p
Market Capitalisation	£9.74m
Shares in issue:	144.3m

Company Profile

Sector:	Support Services
Ticker:	EAAS
Exchange:	AIM

Activities

eEnergy Group ('eEnergy', 'the Group', 'EAAS') is a UK and Irish leader in the fast growing 'energy efficiency as a service 'sector. Its wholly owned division, eLight, operates in the 'Lighting-as-a-Service' segment and aims to lead a revolution in how light is provided to Irish and UK commercial buildings.

Company website: www.eenergyplc.com

1-year share price performance

Source: LSE

Risk warning: Past performance and forecasts are not a reliable indicator of future results.

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eEnergy Group plc

eEnergy has released its unaudited results for the year ending 30 June 2020 along with a trading update for the period from 1 July to 11 September 2020. Highlighting both timeliness and opportunity of the Group's business model, which has benefitted from a number of operational moves taken since January's AIM Admission, eEnergy delivered positive operating EBITDA for each month of its fourth quarter despite coincidence with the Pandemic lockdown, since when it has experienced a significant uplift in new business wins and installation momentum. With increasing evidence of accelerating interest in Light-as-a-Service ('LaaS') as eEnergy entered its new financial year, the CEO now expects his Group to breakeven at the post-tax profit level for the six months to end-December 2020. Given that significant year-on-year growth is expected to continue into Q2 2020/21 with activity further strengthening beyond this, eEnergy now appears ideally positioned to fulfil its stated business plan both in terms of assessing strategic acquisition opportunities and exploring potential to expand its offering across the wider energy management sector.

Opportunities presented by the COVID-19 Pandemic

The fact that not one contract was lost during the lockdown and, since the beginning of July, eEnergy has completed 64 energy efficiency projects, generating over £4 million of revenue, appears to reflect increasing public interest and awareness of the reduced costs and carbon emissions available through LaaS. Representing a six-fold increase on the equivalent period of the prior year, albeit somewhat flattered by delays in commencing a number of installations that had the effect of pushing over £1m of revenue from Q4 2019/20 into Q1 2020/21, recent activity levels have clearly spiked upwards. This was kickstarted by the education sector, with school closures providing many with time to consider maintenance and upgrade projects, including switching to LED lighting, in accordance with stated government policy. Having facilitated a reduction in lead times and an increase in proposal activity, momentum in the UK sector which still remains c.80% unpenetrated, is expected to remain strong for the foreseeable future, although the Board also perceives a growing longer-term opportunity in both the commercial and wider public arenas. With a view to also capturing this, it has now put a clear strategy in place to raise awareness of LaaS generally while complementing it with adjacent energy efficiency revenue streams.

Targeting net profits in the current year

In many respects, eEnergy now appears to be offering the right products and services at exactly the right time. A strong and growing contract pipeline with excellent cash conversion provides the Board with confidence in its ability to deliver a breakeven result with this year's interims followed by a maiden net profit for the full year. Following this, TPI expects the Group to start throwing off significant free cash which, in turn, will support its Board's wider ambitions to operate an ambitious European 'buy-and-build' consolidation strategy with a view to capturing opportunity in the broader, but still relatively nascent, energy efficiency-as-a-service ('EEaaS') sector. TPI considers eEnergy's business model has potential to secure revenues exceeding £100 million within ten years. On this basis and precluding the Group's recent RSL acquisition, TPI's Initiation research of January 2020 had established both DCF and peer-group indicative assessments that suggested a target valuation for eEnergy's businesses of £15.0 million, which is considerably higher than its current market capitalisation.

Please note that TPI's valuation is based on financial modelling and there is no guarantee that such a valuation will ever be realised, therefore please do not base investment decisions on this valuation alone.

Opportunity beyond the education into commercial and public sectors

Analysis by eEnergy pointing at major energy inefficiencies within state schools across England, together with the UK Chancellor's decision to prioritise energy efficiency improvement across public sector buildings, highlighted an important business opportunity. eEnergy estimates school lighting accounts for approximately 50% of the sector's energy costs, suggesting in excess of an estimated £326 million is being wasted every year because of the failure to switch to more efficient LED systems. With more than 27,000 schools in the UK of which the Group considers over 80% have yet to transition to energy-efficient lighting, this represents a market opportunity potentially worth over £1.5 billion.

The Group has completed LED lighting installations at c.250 schools over the last four years, with 88 undertaken so far in 2020 alone. eLight has been particularly successful working with the independent school sector, installing LED lighting at a number of leading establishments to date in 2020, including Marlborough College, Kings Ely and Wycliffe College. Recent acquisition, Renewable Solutions Lighting Limited ('RSL') also focuses on academies and other state funded schools and completed 32 projects last year, plus a further 28 since it joined the Group. Taken together, eEnergy has become a leading supplier of energy efficiency services to the education sector in the UK and Ireland. Current sector activity levels remain strong; in addition to completing committed projects, the Group continues to generate a lengthy pipeline.

Deeper expansion into the larger commercial and public sector also remains a key part of the Group's forward strategy. While all areas of course remain under pressure to reduce operational costs, those in healthcare, food services, logistics etc., for example, that experienced an increase in activity levels during the Pandemic will likely have seen energy consumption rise sharply during the period. Specifically targeting these, eEnergy is currently involved in several large, multi-site tender processes for LED lighting rollouts in the commercial sector and continues to seek similar opportunities.

Mergers and Acquisitions

eEnergy has always stated that its growth strategy is acquisition-based, through which it intends to expand both its client reach, offering and geography. RSL was the first to be completed since the Group quoted on AIM having been selected due to the limited overlap between the two businesses, which should provide an opportunity to broaden overall reach as well as deepen exposure to the state school and academy sector which achieve higher average contract values.

The Group continues to evaluate other targeted acquisition opportunities in order to broaden its offer to customers. Its 'buy-and-build' strategy is focused on strategically significant businesses in adjacent sectors, including energy management. Businesses being targeted, for example, provide integrated energy management (including software) and an established corporate or public sector customer base where eEnergy has potential to offer energy reduction solutions in lighting or broader energy efficiency offerings. The Board is presently considering a pipeline of opportunities to which it will apply a disciplined approach with a view to creating long-term shareholder value.

Funding Agreement

On 6 August 2020, the Group announced a major agreement with a new project funding partner, SUSI Partners AG ('SUSI'). The agreement should underpin eEnergy's market-leading proposition in Ireland and allow it to grow revenues as it takes on significantly more projects over the next three years to meet the increasing demand from schools and businesses. It provides eEnergy with an enhanced competitive advantage, relative to the previous funding arrangements, providing its Irish business with greater flexibility to deploy capital, to extend the length of contracts offered to customers and improve overall economics. Given the opportunities perceived in the Irish and UK markets, eEnergy is working with SUSI to develop this agreement into a longer-term funding partnership, beyond the current committed facility size and with the potential to fund LaaS projects in the UK.

Financial results for the year to end-June 2020

Revenue for the year increased 14% to £4.5m from £3.9m, with gross margins rising to 35.5% (2018/19: 30.4%), reflecting the benefit of new and improved relationships with OEM partners secured during the period. Operating EBITDA improved to a loss of £647,000 (FY18/19: loss of £799,000) yet, despite increased investment in sales & marketing, moved into the positive during each month of the fourth quarter. The resultant total comprehensive loss after tax for the year was £3.3 million (after £1.3 million of Reverse-Takeover ('RTO') expenses) against a loss of £1.4 million in the comparable period. Basic and diluted loss per share from continuing operations was 2.96p (2018/19: 1.60p).

While the COVID-19 crisis resulted in the delay of a number of installations, none of these were cancelled. Given the prudent approach eEnergy adopts by only recognising revenue at the point of installation, the result was to push c.£1m from Q4 2019/20 into Q1 2020/21, taking growth for the first 10 weeks of the new financial year to +500% (or +250% based on organic growth alone) on the comparable period. This carry-over has had the effect of moving the Group into after-tax profits slightly earlier than expected. Having achieved a positive operating EBITDA (before corporate overheads) for each of the last five months, the Board now confirms its expectation of declaring a maiden net profits when reporting its half year results to end-December 2020. It also remains confident of delivering yet further improvement for the full 12 months.

eEnergy's cash at bank at period-end increased to £1,478,000 (£196,000 at 30 June 2019), while net debt (including IFRS 16 lease liabilities) was £528,000 (2019: £424,000). With the acquisition of RSL being completed on 1 July 2020, it was a post balance sheet event as far as 2019/20 is concerned, with the initial consideration being paid entirely in eEnergy shares while eEnergy loaned it funds sufficient to make a scheduled repayment of a director's loan note. Although RSL was a loss-making business upon acquisition, it secured a brand together with a healthy order book plus a strong pipeline upon which to build and complement the Group's education focused business in the UK.

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