

Intelligent Energy

Landmark transaction transforms profitability

Contract and trading update

Alternative energy

1 October 2015

Intelligent Energy (IEH) has signed an agreement to acquire GTL's energy management business, which provides energy to over 27,400 telecom towers in India, for £85m. The transaction provides a platform for the large-scale economic deployment of fuel cells as a distributed power solution and is expected to generate long-term recurring revenues worth £1.2bn of revenues over 10 years. Within three to five years, EBITDA margin for this activity is expected to rise from c 15% to 30-35%, equivalent to c £40m per year. We place our estimates and indicative valuation under review.

Year end	Revenue (£m)	EBITDA (£m)	PTP* (£m)	EPS (p)	DPS (p)	P/E (x)
09/14	13.6	(52.4)	(58.0)	(30.4)	0.0	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, share-based payments and exceptional items.

The company's other two divisions have also made progress during the year. The Motive division has extended its development programme with one of its existing Asian automotive OEM customers. This is worth c £6.5m over two and a half years. In August, Consumer Electronics demonstrated that its fuel cell technologies can be embedded in cell phone and tablet hardware without reducing either existing functionality or battery capacity.

Management expects group H215 revenues to exceed £50m, growing strongly from £27.4m in H115 and £10.1m in H214. This growth is attributable to the DP&G division, which did not begin commercial activities until the end of March 2014.

The consideration payable for the energy management business comprises £25m cash and £60m debt sourced from the Indian banking markets. IEH intends to raise additional funds through two routes: a proposed issue of a convertible instrument to industrial partners involving a strike price at a premium to the current share price, and realising value from its DP&G Indian operations. IEH is also in discussions to acquire certain intangible assets to help expand the DP&G division into new geographies and improve margins. This is expected to require £30-45m funding, financed through non-recourse debt finance.

Price 103p
Market cap £194m

Net cash (£m) at 30 September 2015	24.5
Shares in issue	188.3m
Free float	66%
Code	IEH
Primary exchange	LSE
Other exchanges	N/A

Share price performance



Business description

Intelligent Energy develops efficient hydrogen fuel cell power systems for the distributed power and generation markets (DP&G division), global automotive (Motive division) and consumer electronics (CE division) markets.

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