Accsys Technologies

H119 results

Moving to EBITDA positive

General industrials

Accsys continues to make positive progress and is now generating revenue from its latest investment at Arnhem. We expect the new, under-construction Tricoya facility to follow suit within the next year, at which point annual group revenue potential will be around €150m according to management. In the near term, we expect to see an EBITDA positive outturn in FY19.

Year end	Revenue (€m)	EBITDA* (€m)	PBT* (€m)	EPS* (€)	P/E (x)	EV/EBITDA (x)
03/17	56.5	(1.5)	(4.5)	(0.05)	N/A	N/A
03/18	60.9	(3.5)	(8.8)	(0.07)	N/A	N/A
03/19e	71.6	2.0	(6.0)	(0.04)	N/A	86.6
03/20e	94.9	7.8	(4.0)	(0.04)	N/A	23.9

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

Enlarged Arnhem facility improving performance

Increased revenue, Arnhem profitability and a halved group EBITDA loss were the financial highlights in H119. Behind this, Accsys achieved a c 8% uplift in Accoya volumes or c 21,400m3 sold in the period, which included the third reactor at Arnhem coming on stream. Based on previously released five-month data, the implied September throughput was c 4,500m^3, which is approaching the enlarged annual capacity (ie 60,000m^3) on a monthly run rate basis. Elsewhere, other costs appeared to be well controlled and the current investment phase resulted in a €34m net debt position at the end of September. As expected, no interim dividend was declared.

Markers of progress for unchanged estimates

Encouragingly, with new capacity coming on stream, demand indicators remain supportive and management expects the group to become EBITDA positive in H219. This was already factored into our estimates, which are effectively unchanged following this release. In the remainder of this year, we see sustained higher throughput at Arnhem, further development of both Accoya and Tricoya markets – with an improving mix – and solid progress moving the new Hull Tricoya plant towards construction completion all as important benchmarks of progress. Discussions with potential partners for the construction of new plants in the US and Asia are ongoing, although no timeline or other details are available.

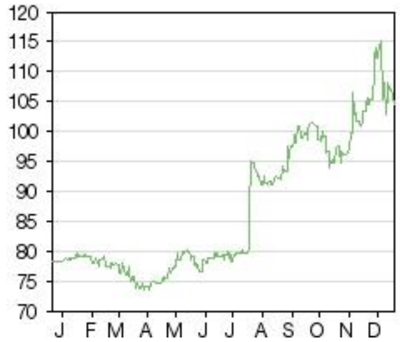
Valuation: Making progress

The Accsys share price is off its highs for the year (116p earlier this month) but has made strong progress during 2018, rising c 36% YTD. We have revisited the Arnhem/Accoya component of our DCF valuation and the current share price is consistent with a c 6% inflation uplift (in prices and opex). A strong pull through of demand on new Arnhem capacity and/or realising production output at Hull (affecting our volume and discount rate assumptions respectively) should both support a higher share price. In FY21, the first expected full year of operation of the Hull Tricoya plant, Accsys is valued at 1.6x revenue and 13.6x EV/EBITDA.

19 December 2018

Price	**104.50p**
Market cap	**£123m**
	£/€ 1.12
Net debt (€m) at end September 2018	34.2
Shares in issue	117.9m
Free float	91.1%
Code	AXS
Primary exchange	LSE
Secondary exchange	Euronext Amsterdam

Share price performance



%	1m	3m	12m
Abs	1.0	4.0	34.4
Rel (local)	5.9	14.7	51.8
52-week high/low		115.0p	73.4p

Business description

Accsys Technologies is a chemical technology company focused on the development and commercialisation of a range of transformational technologies based on the acetylation of solid wood and wood elements for use as high performance, environmentally sustainable construction materials.

Next events

FY19 year end	March

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Edison profile page

Accsys Technologies is a research client of Edison Investment Research Limited

H119 results overview

Interim results continued to provide evidence of the growing demand for Accsys Technologies' acetylated woods and contained progress reports on new capacity projects. The latter investment dominated cash flows with the company ending September with €34m net debt. We made no material changes to our estimates.

Exhibit 1: Accsys Technologies interim splits

Mar y/e (€m)	H118	H218	FY18	H119	H119 % chg y-o-y
Group revenue	**28.3**	**32.6**	**60.9**	**31.6**	**11.6%**
Accoya	28.3	32.4	**60.7**	31.1	+9.9%
Wood revenue	26.2	30.1	**56.3**	28.1	+7.1%
Licence income	0.0	0.0	**0.0**	0.5	n/m
R&D	2.1	2.3	**4.4**	2.5	+19.6%
Tricoya	0.0	0.2	**0.2**	0.5	n/m
Group operating profit	**-4.3**	**-2.3**	**-6.6**	**-3.0**	
Accoya	0.0	2.0	**2.0**	1.3	
Tricoya	-1.2	-1.2	**-2.5**	-1.3	
R&D costs	-0.7	-0.7	**-1.4**	-0.6	
Corporate costs	-2.3	-2.4	**-4.7**	-2.5	
Accoya sales volume m^3	19,826	22,850	**42,676**	21,379	+7.8%
Split Accoya:Tricoya*	83:17		**81:19**	75:25	

Source: Company. Note: *Accoya output from Arnhem used for Tricoya purposes (all revenue shown as Accoya). Note that there were scheduled shutdowns in the first half of both years but none in H218.

Bringing the third reactor at Arnhem on stream during H119 facilitated an increase in **Accoya** volume shipments, supplemented by higher pricing and licence income to deliver a 12% group revenue uplift. A small price uplift in Q418 aided progress and although the average overall selling price was slightly lower due to mix, an improved manufacturing margin was achieved (+100bp y-o-y to 21%). Given capacity constraints, all customers were on allocation; and lower priced volumes for Tricoya grew fastest (primarily to Medite) as Accsys continues to develop this segment. The company was profitable at the Arnhem facility business level, reducing the EBITDA and EBIT loss at group level as other costs appeared to be stable and well controlled.

Including the third reactor (adding 20,000m^3), annualised Accoya capacity is now 60,000m^3 and volume throughput should rise during H219. For FY19, we have modelled 49,000m^3 of volume sold, implicitly requiring c 27,600m^3 in H2 (versus c 21,400m^3 in H1). A price increase has been flagged to customers for January 2019 and, although there are some input cost rises, this together with higher volume is expected to increase gross margin and profitability.

The new-build **Tricoya** facility at Hull is expected to complete by mid-2019, with a commissioning phase to follow. At the end of September, c €38m of assets under construction were held on the balance sheet, which we believe to be the invested capital in the project at that time. As mentioned above, market development ahead of this dedicated capacity coming on stream is continuing with c 5,300m^3 sold in H1 (compared to c 8,100m^3 in FY18 as a whole) from chipped solid Accoya wood produced at Arnhem. We have modelled 9,500m^3 of Tricoya sales for FY19 as a whole.

For the record, our FY20 model assumption is for the sale of c 11,000m^3 of Tricoya chips with around three-quarters of this being produced at Hull (just over a quarter of expected annual capacity) and the remainder, as now, from Arnhem. In the event of slippage in the commissioning phase of at Hull, we believe Arnhem could substantially cover Tricoya volume requirements, although at a lower gross contribution margin. There is no indication that this will be necessary and, of course, any such requirement would be temporary, if it arose at all. Our current expectation is that the expanded capacity at Arnhem will be used to meet growing demand for solid Accoya wood and demonstrate the robust underlying manufacturing margin from this facility.

Moving through the heavy investment phase

Expenditure on capacity expansion was the dominant cash flow feature of H119 and substantially explained the movement from a c €4m group net debt position at the end of FY18 to c €34m net debt at the end of September.

Preparatory work for the latest capacity expansion phase began in FY17, ramped up in FY18 (installing backbone infrastructure at Arnhem and breaking ground at Hull) and has continued into FY19. Total capex in H119 was €34.8m:

- €18.3m Tricoya plant and machinery
- €9.8m net Arnhem land and buildings freehold acquired (previously leasehold)
- €4.9m Arnhem – Accoya third reactor now fully commissioned

Implicitly there was a further €1.8m other, presumably relating to existing operating assets plus a small amount of capitalised costs.

Elsewhere in the cash flow statement, an EBITDA loss of €1.4m in H119 was half of the level seen a year earlier. A small working capital inflow – a favourable payables movement more than offsetting raw material-related inventory absorption – effectively resulted in a neutral trading cash performance. Additionally, cash interest costs were matched by a tax receipt so there was no debt impact there either.

In July, Accsys announced it had issued €5.7m new shares to VP Participaties BV, to bring a new investor onto the register and provide funds for the development of new markets. Lastly, there was a small adverse translation effect on sterling cash balances being used to fund the Hull capex programme mentioned earlier.

Cash flow outlook: with regard to capital projects, the third Arnhem reactor will have moved from construction completion during H119 to its fully operational phase in H219 doubly benefitting cash flow. Specifically, we anticipate that Accsys will generate c €3m EBITDA in H219 and although we have modelled some working capital investment, we nevertheless expect a positive trading cash inflow in the period. Increases in net interest costs more than absorb this inflow leading to a small pre-capex cash outflow overall. Ongoing capital investment to develop the new Hull Tricoya facility dominates expected H219 spending of c €14m (noting a significant reduction versus H119 as the current Arnhem expansion phase is complete).

Overall, the c €16m outflow for the second half leads to an estimated c €50m net debt position at the end of FY19. We expect to see year-end net debt peaking at c €63m in March 2020 – the y-o-y movement being entirely driven by capex, substantially the tail off the Hull investment. The implicit neutral cash flow performance pre-capex in FY20 develops to become c €3m positive overall free cash inflow in FY21 in our model and, hence, indicates a maturing, post investment cash profile. We have not made any provision for further expansion capex apart from the above. Realistically, the decision to invest in a fourth reactor at Arnhem and/or co-invest in possible new overseas facilities via partnerships may be taken within our time horizon.

On track investment and trading expectations

We initiated coverage of Accsys in July and have made no substantive changes to our estimates since then or following the interim results announcement. Given the significant investment programme that is underway, ongoing operational delivery against expectations is a noteworthy positive. As a reminder and as alluded to above, we expect Accsys to be EBITDA positive from FY19 and achieve an overall operating profit in the following year. We expect EBIT to exceed financing costs in FY21 and hence generate positive group PBT for the first time in that year.

Exhibit 2: Financial summary

€'ms	2012	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e
March	UK GAAP	UK GAAP	UK GAAP	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS										
Revenue	15.002	18.822	33.512	46.077	52.769	56.529	60.911	71.623	94.873	114.500
Cost of Sales	(15.050)	(15.474)	(25.753)	(33.842)	(34.597)	(42.175)	(47.270)	(52.009)	(66.887)	(78.976)
Gross Profit	(0.048)	3.348	7.759	12.235	18.172	14.354	13.641	19.614	27.986	35.524
EBITDA	(10.386)	(7.944)	(4.111)	(1.275)	2.384	(1.484)	(3.500)	1.999	7.786	13.451
Operating Profit (before GW and except.)	(12.545)	(10.200)	(6.488)	(3.750)	(0.288)	(4.197)	(6.577)	(2.615)	0.701	5.416
Intangible Amortisation	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Exceptionals	(2.281)	0.000	(0.726)	(2.670)	0.000	0.033	(1.650)	0.000	0.000	0.000
Other	0.000	(0.430)	(0.905)	(1.098)	0.000	0.000	0.000	0.000	0.000	0.000
Operating Profit	(14.826)	(10.630)	(8.119)	(7.518)	(0.288)	(4.164)	(8.227)	(2.615)	0.701	5.416
Net Interest	(0.086)	(0.038)	(0.071)	(0.135)	(0.178)	(0.300)	(2.174)	(3.400)	(4.700)	(4.700)
Profit Before Tax (norm)	(12.631)	(10.238)	(6.559)	(3.885)	(0.466)	(4.497)	(8.751)	(6.015)	(3.999)	0.716
Profit Before Tax (FRS 3)	(14.912)	(10.668)	(8.190)	(7.653)	(0.466)	(4.463)	(10.401)	(6.015)	(3.999)	0.716
Tax	0.536	(0.355)	(0.699)	(0.607)	(0.402)	(0.666)	0.251	0.195	(1.231)	(1.499)
Profit After Tax (norm)	(12.095)	(11.023)	(8.163)	(5.590)	(0.868)	(5.163)	(8.500)	(5.820)	(5.230)	(0.783)
Profit After Tax (FRS 3)	(14.376)	(11.023)	(8.889)	(8.260)	(0.868)	(5.129)	(10.150)	(5.820)	(5.230)	(0.783)
						4.990				
Average Number of Shares Outstanding (m)	80.7	83.9	87.5	88.5	89.6	90.4	111.2	116.3	117.9	117.9
EPS - normalised (€)	(0.15)	(0.13)	(0.09)	(0.06)	(0.01)	(0.05)	(0.07)	(0.04)	(0.04)	(0.01)
EPS - FRS 3 (€)	(0.18)	(0.13)	(0.10)	(0.09)	(0.01)	(0.05)	(0.08)	(0.04)	(0.04)	(0.01)
Dividend per share (€)	0.0	0.0	0.0	0.0	0.0	0.0	0.00	0.00	0.00	0.00
Gross Margin (%)	-0.32	17.8	23.2	26.6	34.4	25.4	22.4	27.4	29.5	31.0
EBITDA Margin (%)	-69.2	-42.2	-12.3	-2.8	4.5	-2.6	-5.7	2.8	8.2	11.7
Operating Margin (before GW and except.) (%)	-83.6	-54.2	-19.4	-8.1	-0.5	-7.4	-10.8	-3.7	0.7	4.7
BALANCE SHEET										
Fixed Assets	34.715	31.425	29.413	29.562	31.252	32.520	71.488	115.416	122.249	119.632
Intangible Assets	7.579	8.226	8.333	10.014	10.980	10.839	10.657	10.436	10.219	10.002
Tangible Assets	25.614	22.271	20.740	19.548	20.272	21.681	60.831	104.980	112.030	109.630
Investments	1.522	0.928	0.340	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Current Assets	32.387	29.638	26.161	24.066	22.590	61.268	63.505	40.422	39.743	37.333
Stocks	3.120	4.860	6.053	7.894	8.345	11.796	13.125	14.441	14.572	13.205
Debtors	3.000	3.439	4.091	3.912	4.967	7.402	9.178	10.349	14.391	18.347
Cash	24.574	20.467	15.185	10.786	8.186	41.173	39.698	12.003	7.003	2.003
Current Liabilities	(3.649)	(3.621)	(5.821)	(10.701)	(9.842)	(14.599)	(21.414)	(27.063)	(31.189)	(34.698)
Creditors	(3.385)	(3.357)	(5.557)	(10.437)	(9.488)	(14.144)	(18.029)	(20.370)	(24.496)	(28.005)
Short term borrowings	(0.264)	(0.264)	(0.264)	(0.264)	(0.354)	(0.455)	(3.385)	(6.693)	(6.693)	(6.693)
Long Term Liabilities	(1.960)	(1.924)	(1.871)	(1.799)	(1.947)	(22.718)	(40.084)	(55.171)	(62.430)	(54.676)
Long term borrowings	(1.960)	(1.924)	(1.871)	(1.799)	(1.947)	(22.718)	(40.084)	(55.171)	(62.430)	(54.676)
Other long term liabilities	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Net Assets	61.493	55.518	47.882	41.128	42.053	56.471	73.495	73.604	68.373	67.591
CASH FLOW										
Operating Cash Flow	(3.717)	(8.938)	(3.257)	(3.873)	0.452	(1.304)	(1.756)	0.888	7.369	14.149
Net Interest	(0.019)	(0.038)	(0.102)	(0.138)	(0.186)	(0.248)	(0.671)	(3.200)	(4.500)	(4.500)
Tax	0.000	0.795	0.344	0.263	0.229	(0.745)	(2.013)	0.815	(1.231)	(1.499)
Capex	0.888	0.501	(1.054)	(1.108)	(4.052)	(2.608)	(29.895)	(48.952)	(13.897)	(5.397)
Acquisitions/disposals	0.000	0.000	0.000	0.000	0.956	18.317	0.000	0.000	0.000	0.000
Financing	(0.178)	3.597	(1.130)	0.461	0.124	0.050	26.728	5.718	0.000	0.000
Dividends	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Net Cash Flow	(3.026)	(4.083)	(5.199)	(4.395)	(2.477)	13.462	(7.607)	(44.731)	(12.259)	2.754
Opening net debt/(cash)	(27.596)	(22.350)	(18.279)	(13.050)	(8.723)	(5.885)	(18.000)	3.771	49.861	62.120
HP finance leases initiated	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other	(2.220)	0.012	(0.030)	0.068	(0.361)	(1.347)	(14.164)	(1.359)	0.000	0.000
Closing net debt/(cash)	(22.350)	(18.279)	(13.050)	(8.723)	(5.885)	(18.000)	3.771	49.861	62.120	59.366

Source: Company, Edison Investment Research

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