

ITM Power Plc

United Kingdom / Alternative Energy

London

Bloomberg: ITM LN

ISIN: GB00B0130H42

H1 figures

RATING

PRICE TARGET

Return Potential

Risk Rating

SELL

GBP 105.00

-34.4%

High

ON THE WAY TO BECOMING A GLOBAL GREEN HYDROGEN PLAYER

ITM Power has reported H1 figures (period May-October) which were below our forecasts. Total income was down 24% at GBP 3.8m due to lower grant income and grants receivable for capital projects. Sales, however, were up 100% at GBP 2.4m showing that ITM is gaining traction in the market. The loss from operations increased y/y from GBP 5.3m to GBP 9.8m. The figures do not overshadow the transformative GBP 58.8m capital increase, of which Linde took 20%, and the formation of a joint venture with Linde Engineering to deliver green hydrogen to large scale industrial projects. ITM is building an electrolyser production site with a final capacity of 1,000 MW. The factory will be the largest electrolyser production site worldwide and will start operation at the right point in time, after many countries (e.g. South Korea, Germany) have significantly increased their support for green hydrogen. Although we welcome ITM's positive strategic development, we believe that the valuation is too far ahead of the company's commercial progress. ITM is currently valued at almost GBP 760m, which is very high even if 2022 revenue reaches our forecast of ca. GBP 50m. An updated DCF model yields a new price target of GBP 105 (previously: GBP 60). The share price has roughly multiplied eightfold since we initiated coverage in February 2019. We downgrade the stock from Add to Sell.

H1 figures below forecasts In H1, ITM's total income retreated y/y from GBP 5.0m to GBP 3.8m (FBe: GBP 4.5m) due to lower grant income (GBP 0.8m versus GBP 2.5m in the prior year period) and lower grants receivable for capital projects (GBP 0.4m versus GBP 1.3m). Grant income reduction was higher than anticipated. The doubling of sales (GBP 2.4m versus GBP 1.2m in the prior year period) shows that ITM is gaining traction in the market.

Cost of sales rose significantly from GBP 1.8m to GBP 5.6m due mainly to cost overruns on legacy projects including the prestigious Shell Refhyne project. Since the end of H1, ITM has received higher than originally anticipated...

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019	2020E	2021E	2022E
Total income (GBP m)	9.23	14.10	17.56	11.04	28.31	56.57
Revenue (GBP m)	2.42	3.28	4.59	5.54	21.34	50.57
Y-o-y growth	n.a.	35.9%	39.8%	20.7%	285.3%	137.0%
EBIT (GBP m)	-3.55	-6.49	-9.35	-18.40	-7.02	-2.66
EBIT margin	-147.0%	-197.8%	-203.7%	-332.3%	-32.9%	-5.3%
Net income (GBP m)	-3.78	-6.12	-9.45	-18.21	-6.59	-2.47
EPS (diluted) (GBPp)	-1.70	-2.13	-2.92	-4.57	-1.39	-0.52
FCF (GBPm)	-5.85	-9.57	-15.28	-10.58	-31.97	-13.17
Net gearing	-11.9%	-57.3%	-19.7%	-75.1%	-30.3%	-8.8%
Liquid assets (GBP m)	1.56	20.40	5.17	50.20	18.23	5.06

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 Feb 2020

Closing Price	GBP 160.00
Shares outstanding	472.66m
Market Capitalisation	GBP 756.26m
52-week Range	GBP 19.63/160.00
Avg. Volume (12 Months)	1,441,638

Multiples	2019	2020E	2021E
P/E	n.a.	n.a.	n.a.
EV/Sales	111.8	92.7	24.1
EV/EBIT	n.a.	n.a.	n.a.
Div. Yield	n.a.	n.a.	n.a.

STOCK OVERVIEW



COMPANY DATA

As of 31 Oct 2019

Liquid Assets	GBP 56.88m
Current Assets	GBP 83.64m
Intangible Assets	GBP 1.06m
Total Assets	GBP 92.99m
Current Liabilities	GBP 18.11m
Shareholders' Equity	GBP 74.40m

SHAREHOLDERS

Linde	20.2%
Allianz SE	9.4%
Investec	9.4%
Other	15.0%
Free Float	46.0%



...price indications for installation and commissioning of the Refhyne project. The company has thus made a provision for loss of GBP 1.9m in its P&L account under cost of sales. We believe that these first-of-a-kind deployment challenges will not reoccur in the JV with Linde, which can draw on the German company's vast fund of EPC experience. ITM's H1 operating loss and the net loss amounted to GBP -9.8m (see figure 1). EPS were GBP -3.0 (H1/19: GBP -1.8).

Figure 1: Reported figures versus forecasts

in GBPm	H1/20A	H1/20E	Delta	H1/19	Delta
Total income	3.80	4.54	-16.3%	5.00	-24.0%
Revenue	2.44	1.54	58.3%	1.20	103.2%
EBITDA	-8.61	-4.50	-	-4.50	-
EBIT	-9.83	-5.46	-	-5.30	-
Net result	-9.91	-5.36	-	-5.19	-
EPS (GBP, diluted)	-3.00	-1.65	-	-1.80	-

Source: First Berlin Equity Research, ITM Power Plc

Strong balance sheet due to large capital increase The GBP 58.8m capital increase in October 2019 resulted in a cash position of GBP 56.9m at the end of H1. Equity rose from GBP 26.2m at the end of FY 2019 to GBP 74.4m. The equity ratio widened from 58% to 80%. Following the successful fundraising, ITM now has the balance sheet strength required to take on large scale industrial electrolysis orders.

Decrease in receivables results in moderate operating cash outflow Despite the high operating loss of GBP 9.8m, operating cash outflow was only to GBP 1.9m due mainly to a decrease in receivables of GBP 8.6m. CAPEX of GBP 4.5m resulted in free cash flow of GBP -6.4m. The capital increase led to positive financing cash flow of GBP 57.8m. Net cash flow was GBP 51.7m.

The gigawatt factory is taking shape The lease for the new factory, which is situated at Bessemer Park close to Sheffield, has been signed, and the Clegg Group appointed as principal contractor for the fit out on a 30 week programme. The programme of works at the factory is scheduled for completion by Q3 2020, and is designed to enable the company to reach a capacity of 1 GW within three years. The installation of an upgraded 5 MW power connection will facilitate on-site testing of larger electrolysers, which will support ITM's ability to deliver large scale projects. The annual capacity of up to 1 GW gives ITM the opportunity to increase annual output significantly which should result in a strong cost reduction trajectory.

JV with Linde is transformative for ITM Power The JV will focus on delivering green hydrogen to large scale industrial projects with electrolyser capacities of 10 MW and above. Based on Linde's world-leading hydrogen EPC competence, ITM is now able to offer a full turnkey solution at industrial scale. This allows ITM to concentrate on its core competence of developing and manufacturing electrolysis equipment. The ITM Linde Electrolysis GmbH has already been incorporated and has appointed Andreas Rupieper, currently Head of Group R&D and Portfolio Management at Linde, as Managing Director.

Product deployment and construction highlights in H1 The opening of the 1 MW electrolyser at Gasunie in the Netherlands was an important milestone for ITM, especially as the north Netherlands are now becoming an important territory for the development of green hydrogen strategies.



ITM has opened its first bus refuelling station in Pau, France, and has worked closely with Linde to integrate the hydrogen production and bus refuelling equipment. ITM Power recently added a Shell forecourt at Gatwick, UK, to its network of self-owned refuelling stations.

The construction of the Shell Refhyne project, consisting of five 2 MW standard electrolysis modules, is progressing as scheduled. The module build is expected to be completed in April 2020 with testing ongoing into the summer. The project is currently the largest green hydrogen project worldwide and is an important reference for other quotes and deployments.

Rising order backlog At the end of January 2020, the total backlog was up 26% at GBP 42.4m (2018: GBP 33.6m). The order backlog comprises GBP 16.3m (2018: GBP 23.2m) of projects under contract and a further GBP 26.1m (2018: GBP 10.4m) in the final stages of negotiation. The qualified tender opportunity pipeline increased slightly to over GBP 248m (2018: GBP 240m), representing 37 projects with an average size of GBP 6.7m. Going forward, the tender opportunity pipeline will begin to decrease as larger industrial tenders are bid by ITM Power as electrolyser-only sales, therefore excluding the EPC element, which will fall to Linde via the joint venture. The pipeline will now reflect the element of a solution that is specific to ITM Power.

Cooperation with Iwatani to penetrate the North American market ITM Power and Iwatani Corporation of America ("ICA"), a wholly owned subsidiary of the listed Japanese company Iwatani Corporation have signed a collaboration agreement for the deployment of multi MW electrolysers-based hydrogen energy systems in North America. Iwatani is a global gas supplier including LNG, LPG, and hydrogen, and has a market capitalisation of ca. USD 1.7 bn.

HyDeploy, using an ITM electrolyser, is fully operational HyDeploy, the UK's first live pilot to inject zero carbon hydrogen into a gas network to heat homes and businesses is now fully operational. It is the first ever practical demonstration of hydrogen in a modern gas network in the UK and is injecting up to 20% (by volume) of hydrogen into Keele University's existing natural gas network, feeding 100 homes and 30 faculty buildings. The 20% hydrogen blend is the highest in Europe, together with a similar project being run by Engie in Northern France. Backed by Ofgem's Network Innovation Competition, the GBP 7m project is led by Cadent in partnership with Northern Gas Networks, Keele University, the Health and Safety Executive (HSE) Science Division, ITM Power, and independent clean energy company Progressive Energy.

Deloitte / Ballard study forecasts important role of fuel cells in the mobility sector Based on a detailed total cost of ownership analysis, the study expects that fuel cell electric vehicles (FCEV) will become cheaper than battery electric vehicles (BEV) and internal combustion engines (ICE) probably sooner than 2026. The main driver will be significantly lower manufacturing cost, which is the main fuel cell cost component. Furthermore, the study highlights fuel cells' superiority regarding lifetime emissions and environmental impact. A more prominent role of hydrogen fuel cells in the mobility sector of course means higher demand for green hydrogen and thus electrolysers.

Rising hydrogen support will drive medium-term sales Given the significant increase in regulatory support for hydrogen in many countries, we have increased our medium-term forecasts. We highlight Germany which has initiated several measures in the industry, mobility, and utility sectors to gain a leading position in the global hydrogen market and will shortly decide on its national hydrogen strategy. Following ITM's weaker than expected H1 figures, we have lowered our 2020 estimates (see figure 2 overleaf).

**Figure 2: Revisions to forecasts**

in GBpm	2020E			2021E			2022E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Total income	13.91	11.04	-20.6%	28.31	28.31	0.0%	56.57	56.57	0.0%
Sales	5.94	5.54	-6.8%	21.34	21.34	0.0%	50.57	50.57	0.0%
EBIT	-9.21	-18.40	-	-7.02	-7.02	-	-2.66	-2.66	-
<i>margin</i>	-155.1%	-332.3%	-	-32.9%	-32.9%	-	-5.3%	-5.3%	-
Net income	-8.65	-18.21	-	-6.59	-6.59	-	-2.47	-2.47	-
<i>margin</i>	-145.6%	-328.9%	-	-30.9%	-30.9%	-	-4.9%	-4.9%	-
EPS (diluted) in GBp	-2.2	-4.6	-	-1.4	-1.4	-	-0.5	-0.5	-

Source: First Berlin Equity Research

Significantly higher price target, but downgrade to Sell after strong share price increase An updated DCF model yields a new price target of GBp 105 (previously: GBp 60). ITM's share price has almost tripled since mid December 2019. We downgrade the stock from Add to Sell.



VALUATION MODEL

DCF valuation model								
All figures in GBP '000	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Net sales	5,538	21,340	50,570	101,140	171,938	257,908	361,071	469,392
NOPLAT	-18,403	-7,019	-2,657	6,340	12,865	19,562	27,895	37,402
+ depreciation & amortisation	2,416	2,425	2,922	2,866	3,264	5,019	7,784	11,312
Net operating cash flow	-15,987	-4,594	264	9,206	16,129	24,581	35,679	48,714
- total investments (CAPEX + WC - grants)	4,020	-27,805	-13,618	-13,630	-16,768	-21,418	-27,363	-37,510
Capital expenditures	-9,747	-7,896	-7,080	-7,586	-12,192	-17,233	-22,649	-27,523
Working capital	8,767	-23,909	-10,538	-10,045	-8,576	-8,185	-8,714	-14,987
Grants received	5,000	4,000	4,000	4,000	4,000	4,000	4,000	5,000
Free cash flows (FCF)	-11,967	-32,399	-13,354	-4,424	-639	3,164	8,317	11,204
PV of FCF's	-11,744	-29,100	-10,977	-3,328	-440	1,993	4,796	5,913

All figures in thousands	
PV of FCFs in explicit period (2020E-2034E)	91,046
PV of FCFs in terminal period	349,614
Enterprise value (EV)	440,660
+ Net cash / - net debt	56,084
+ Investments / minority interests	0
Shareholder value	496,744
Diluted number of shares	472,663
Fair value per share in GBP	105.1

WACC		WACC	Terminal growth rate						
			1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
Cost of equity	10.2%	5.3%	263.8	294.0	335.2	394.7	487.9	655.0	1041.4
Pre-tax cost of debt	8.0%	6.3%	192.0	207.5	227.2	253.0	288.1	338.7	418.0
Tax rate	20.0%	7.3%	146.4	155.3	166.0	179.3	196.1	218.0	247.9
After-tax cost of debt	6.4%	8.3%	115.3	120.7	127.1	134.7	143.8	155.1	169.4
Share of equity capital	75.0%	9.3%	93.0	96.5	100.5	105.1	110.5	116.9	124.7
Share of debt capital	25.0%	10.3%	76.5	78.8	81.4	84.3	87.7	91.6	96.3
		11.3%	63.8	65.4	67.1	69.1	71.3	73.8	76.7
Price target in GBP	105.0	12.3%	53.9	55.0	56.2	57.5	59.0	60.7	62.6

* for layout purposes the model shows numbers only to 2027, but runs until 2034



INCOME STATEMENT

All figures in GBP '000	2017A	2018A	2019A	2020E	2021E	2022E
Total income	9,230	14,100	17,559	11,038	28,313	56,570
Revenues	2,415	3,283	4,589	5,538	21,340	50,570
Cost of goods sold	1,757	3,438	5,755	8,141	16,859	37,928
Gross profit	658	-155	-1,166	-2,603	4,481	12,643
S&M	1,528	1,455	1,713	1,800	2,100	2,700
G&A	2,202	3,086	4,738	5,300	5,100	6,200
R&D	2,023	1,792	2,327	2,900	2,900	3,900
Prototype production & engineering	2,615	4,144	6,202	7,800	4,400	4,500
Grant income	4,160	4,138	6,799	2,000	3,000	2,000
Operating income (EBIT)	-3,550	-6,494	-9,347	-18,403	-7,019	-2,657
Net financial result	0	18	29	6	11	25
Pre-tax income (EBT)	-3,550	-6,476	-9,318	-18,397	-7,008	-2,632
Income taxes	230	-360	133	-184	-420	-158
Minority interests	0	0	0	0	0	0
Net income / loss	-3,780	-6,116	-9,451	-18,213	-6,587	-2,474
Diluted EPS (in GBp)	-1.7	-2.1	-2.9	-4.6	-1.4	-0.5
EBITDA	-2,346	-4,782	-7,450	-15,987	-4,594	264
Ratios						
Gross margin	27.2%	-4.7%	-25.4%	-47.0%	21.0%	25.0%
EBITDA margin on revenues	-97.1%	-145.7%	-162.3%	-288.7%	-21.5%	0.5%
EBIT margin on revenues	-147.0%	-197.8%	-203.7%	-332.3%	-32.9%	-5.3%
Net margin on revenues	-156.5%	-186.3%	-205.9%	-328.9%	-30.9%	-4.9%
Tax rate	-6.5%	5.6%	-1.4%	1.0%	6.0%	6.0%
Expenses as % of revenues						
S&M	63.3%	44.3%	37.3%	32.5%	9.8%	5.3%
G&A	91.2%	94.0%	103.2%	95.7%	23.9%	12.3%
R&D	83.8%	83.8%	83.8%	83.8%	83.8%	83.8%
Prototype production & engineering	108.3%	126.2%	135.1%	140.8%	20.6%	8.9%
Y-Y Growth						
Revenues	n.a.	35.9%	39.8%	20.7%	285.3%	137.0%
Operating income	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.
Net income / loss	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.



BALANCE SHEET

All figures in GBP '000	2017A	2018A	2019A	2020E	2021E	2022E
Assets						
Current assets, total	14,846	39,558	38,982	88,884	75,004	78,141
Cash and cash equivalents	1,558	20,403	5,173	50,195	18,228	5,057
Short-term investments	0	0	0	0	0	0
Receivables	12,528	18,500	31,903	34,897	52,619	67,889
Inventories	760	655	1,906	3,792	4,157	5,196
Other current assets	0	0	0	0	0	0
Non-current assets, total	4,899	4,809	6,411	10,742	12,213	12,371
Property, plant & equipment	4,519	4,454	5,742	7,975	9,211	9,114
Goodwill & other intangibles	380	355	669	767	1,002	1,257
Other assets	0	0	0	2,000	2,000	2,000
Total assets	19,745	44,367	45,393	99,626	87,217	90,512
Shareholders' equity & debt						
Current liabilities, total	6,675	8,776	19,184	32,830	27,008	32,778
Short-term debt	0	0	0	0	0	0
Accounts payable	6,666	7,928	17,579	31,225	25,403	31,173
Current provisions	9	848	1,605	1,605	1,605	1,605
Other current liabilities	0	0	0	0	0	0
Long-term liabilities, total	0	0	0	0	0	0
Long-term debt	0	0	0	0	0	0
Deferred revenue	0	0	0	0	0	0
Other liabilities	0	0	0	0	0	0
Minority interests	0	0	0	0	0	0
Shareholders' equity	13,070	35,591	26,209	66,796	60,208	57,734
Share capital	12,531	16,200	16,200	17,670	17,670	17,670
Capital reserve	61,930	86,631	86,631	143,961	143,961	143,961
Other reserves	-2,169	-1,902	-1,862	-1,862	-1,862	-1,862
Treasury stock	0	0	0	0	0	0
Loss carryforward / retained earnings	-59,222	-65,338	-74,760	-92,973	-99,561	-102,035
Total consolidated equity and debt	19,745	44,367	45,393	99,626	87,217	90,512
Ratios						
Current ratio (x)	2.22	4.51	2.03	2.71	2.78	2.38
Quick ratio (x)	2.11	4.43	1.93	2.59	2.62	2.23
Net debt	-1,558	-20,403	-5,173	-50,195	-18,228	-5,057
Net gearing	-11.9%	-57.3%	-19.7%	-75.1%	-30.3%	-8.8%
Book value per share (in GBP)	0.06	0.12	0.08	0.17	0.13	0.12
Return on equity (ROE)	-28.9%	-17.2%	-36.1%	-27.3%	-10.9%	-4.3%



CASH FLOW STATEMENT

All figures in GBP '000	2017A	2018A	2019A	2020E	2021E	2022E
EBIT	-3,550	-6,494	-9,347	-18,403	-7,019	-2,657
Depreciation and amortisation	1,204	1,712	1,897	2,416	2,425	2,922
EBITDA	-2,346	-4,782	-7,450	-15,987	-4,594	264
Changes in working capital	-3,076	-3,602	-5,003	8,767	-23,909	-10,538
Other adjustments	374	379	661	1,390	431	183
Operating cash flow	-5,048	-8,005	-11,792	-5,831	-28,072	-10,091
Investments in PP&E	-3,293	-8,622	-4,125	-9,415	-7,469	-6,574
Investments in intangibles	-151	-76	-436	-332	-427	-506
Grants received against purchases of PP&E	2,646	7,130	1,073	5,000	4,000	4,000
Free cash flow	-5,846	-9,573	-15,280	-10,578	-31,968	-13,171
Acquisitions & disposals, net	4	1	0	-2,000	0	0
Investment cash flow	-794	-1,567	-3,488	-6,747	-3,896	-3,080
Debt financing, net	0	0	0	0	0	0
Equity financing, net	5,732	29,358	0	58,800	0	0
Dividends paid	0	0	0	0	0	0
Other financing	-267	-970	29	-1,200	0	0
Financing cash flow	5,465	28,388	29	57,600	0	0
FOREX & other effects	45	29	3	0	0	0
Net cash flows	-332	18,845	-15,248	45,022	-31,968	-13,171
Cash, start of the year	1,890	1,558	20,403	5,173	50,195	18,228
Cash, end of the year	1,558	20,403	5,155	50,195	18,228	5,057
EBITDA/share (in GBp)	-1.1	-1.7	-2.3	-4.0	-1.0	0.1
Y-Y Growth						
Operating cash flow	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.
Free cash flow	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	n.a.	n.m.	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	GBp21.55	Buy	GBp43.00
2...1	↓	↓	↓	↓
2	12 June 2019	GBp32.50	Buy	GBp43.00
3	2 July 2019	GBp34.95	Buy	GBp46.00
4	15 October 2019	GBp49.00	Add	GBp60.00
5	Today	GBp160.00	Sell	GBp105.00

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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.

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Legally required information regarding

- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

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