



26th October 2020

Small Cap

Fluence Corporation Limited – Strong Pure Play Water and Wastewater Treatment Company

Reading Time: 5 Mins

By Team Ace Investors

Stock Code	ASX: FLC
Shares O/S	624.85 million
Closing Price	AUD 0.205
Market Cap	124.97 million
52 High/Low	0.505/0.170
One Year Stock Performance	-35%
Avg volume (TTM)	0.62 million
EPS (TTM)	-0.030
P/E	-
Annual Dividend Yield	-
Franking	-
Last Dividend Ex-Date	-
Last Dividend Pay Date	-
DPS (AUD)	-
ROE %	-

COMPANY OVERVIEW

Fluence Corporation Limited ("**FLC**" or the "**Company**") is a leader in the decentralized water, wastewater and reuse treatment markets. Fluence offers an integrated range of services across the complete water cycle, from early stage evaluation, through design and delivery to ongoing support and optimization of water related assets, as well as Build Own Operate Transfer (BOOT) and other recurring revenue solutions.

Strong Water Management Company with Diversified Presence – With established operations in North America, South America, the Middle East, Europe and China, Fluence has experience operating in over 70 countries worldwide and enables businesses and communities worldwide to maximize their water resources.

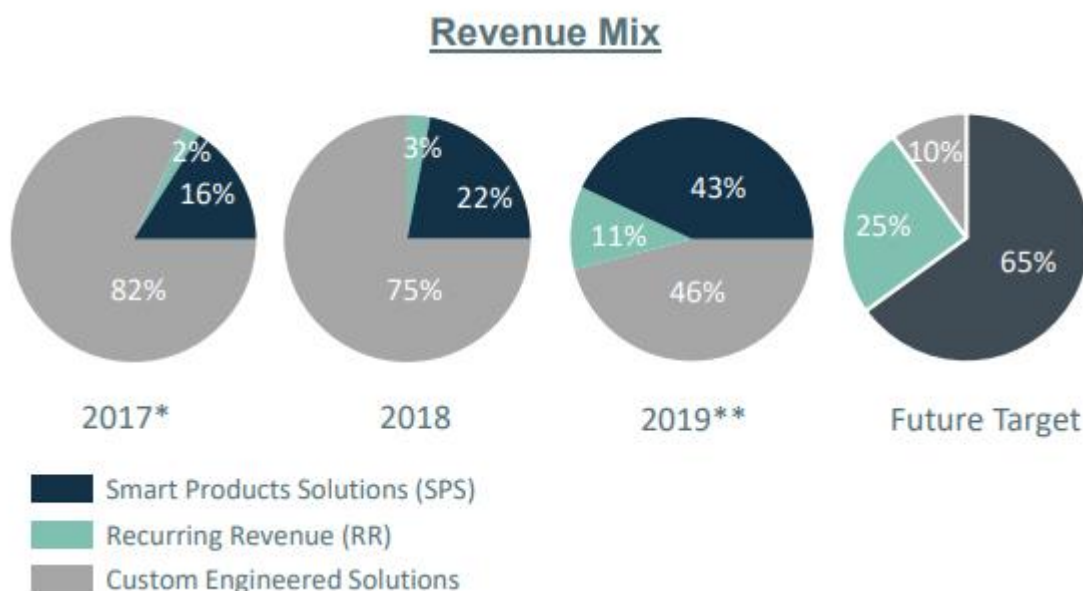
Strong June Quarter – On 30th July 2020, the Company announced its strong performance update for Q2 2020. The Company's revenue more than doubled to US\$57.4 million (vs H1 2019). Despite the global concerns

related to the spread of COVID-19, the Company achieved the significant milestone of positive EBITDA due in large part to the financial close of the Ivory Coast Project for work already performed and delivered to the customer. The Company's cash and cash equivalents stood at U.S. \$20.1 million at 30 June 2020 (up from \$16.9 million at 31 March 2020). Based on current contracts, and the anticipated collections from the Ivory Coast Project providing remaining conditions precedent are met, the Company expects to be cash flow positive in H2 2020.

INVESTMENT RATIONALE/CONCERNS

- The Company is the only global, pure play water and wastewater treatment company delivering standardised, pre-engineered solutions focused on the huge & growing decentralised market – fast to deploy, low cost, lower risks and meets tightening regulatory standards. The Company's wastewater solution underpinned by proprietary MABR technology that delivers significant operating cost and GHG emission reductions; now validated in over 140 plants globally.
- **Focus on Higher Margin Business and Recurring Revenue** – Over the years, the Company has shifted its focus towards higher margin Smart Products Solutions and Recurring Revenue. Smart Products Solutions (SPS) accounted for 43% of total revenue in 2019 (16% in 2017). During Q2 FY2020, revenue from SPS segment was US\$7.7 million, while new orders were \$8.5 million (up 49% on Q2 2019). The Company expects SPS revenue to grow to at least US\$32.0 million, a more than 20% increase from FY 2019, supported by volume commitments from ITEST, alongside anticipated orders from Aerospace Kaitian Environmental Technology and Liaoning Huahong New Energy. Recurring revenue is expected to continue to grow by 30% to US\$9.0 million

(FY 2019: U.S. \$7.0 million)



Source: Company Report

- **Update Related to Ivory Coast Project** – On 8th January 2020, the Company received financial closure of €165 million (A\$268 million). The financial close comes almost 12 months (the deal was announced in February 2019) after Fluence secured the contract with the Ivory Coast Government to supply and install a 150,000 cubic metre per day surface water treatment plant. The plant will treat contaminated lagoon water and provide drinking water to 4.7million residents of Abidjan. The project is expected to provide a strong and predictable revenue for the next 2 years with expected average gross margin of ~18%. During the March quarter, Fluence recognized U.S.\$34 million of revenue for work already completed and delivered to the customer.
- **New Order Pipeline** – The Company is continuously getting new orders. The Company secured its first *Aspiral* sale in the province of Inner Mongolia to Beijing China Railway Science New Technology Co. Ltd. In March, the Company received the largest SPS order outside of China to date with a *SUBRE* greenfield project in Cambodia that will treat 15,000m³ /day upon completion. This project is expected to provide an excellent local reference for future biological wastewater treatment needs in Cambodia and in the region.
- **Reaffirming FY2020 Guidance** – Despite the impact of travel restrictions and delays in both Ivory Coast and San Quintin, Fluence is pleased to reaffirm its guidance for FY 2020. The business is progressing well to achieve EBITDA profitability for FY 2020, US\$32 million in SPS sales and US\$9 million in recurring revenue.

ACE's RECOMMENDATION

The Company is focused to strengthen its position as a leader in the global decentralised water and wastewater segment and anticipate that longer-term demand for Fluence's safe, secure water and wastewater treatment solutions will increase. The Company is focused to grow sales of higher margin Smart Products Solutions (SPS), specifically in China and to grow the recurring revenues.

The Company in its recent update mentioned that the construction work on the Peru BOOT project has been delayed as Peru has been in a total COVID-19 lock-down since March 15. The Company expects that once completed; the project is expected to generate annual recurring revenue of at least US\$3 million for 10 years.

The Company, over the short span of time has added and won contracts from major clients such as Beijing China Rail and The Three Gorges Group. During FY 2019, the Company has successfully A\$38.3 million gross proceeds via a private placement and Share Purchase Plan. The proceeds from this fund raise has further helped the Company to explore new growth opportunities with a focus on MABR activities in China. At current levels, we would like to recommend **BUY** rating on the stock.

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