

# Fluence

Contract win

## China Contract catalyst?

Fluence has secured a deal for its Aspiral product in China that should generate at least US\$45m in revenue over the next three years. This deal is significant as, aside from the financial benefit, it demonstrates the size of the opportunity for Aspiral in China. Greater investor confidence in Fluence's prospects here could drive a sharp re-rating of the shares, in our view. We make no changes to numbers now but will review estimates after the Q3 trading statement.

Year end	Revenue (US\$m)	EBITDA* (US\$m)	EPS* (US\$)	EV/Revenue (x)	EV/EBITDA (x)	P/E (x)
12/17	33.2	(23.6)	(0.07)	2.9	N/A	N/A
12/18	107.0	(13.8)	(0.03)	0.9	N/A	N/A
12/19e	154.0	(2.0)	(0.01)	0.6	N/A	N/A
12/20e	194.4	11.9	0.02	0.5	8.2	14.2

Note: \*EBITDA and EPS are normalised, excluding amortisation of acquired intangibles, share-based payments

## First high volume Aspiral contract

Fluence has announced a deal with ITEST, a provider of engineering services to the highway network in central China, to supply its Aspiral containerised wastewater treatment to highway service stations. The agreement is expected to provide a minimum treatment capacity of 66,000m<sup>3</sup>/d three years from now, with 80 stations (c 30,000m<sup>3</sup>/d) being equipped in the first 18 months. Combined with sales of accompanying equipment, the company expects this deal to generate revenues of at least US\$45m over three years; we estimate over US\$20m of which will be delivered by FY19. This deal is the first high volume sale of Aspiral.

## What are the implications?

We see this deal having three significant implications for investors. First, it is a major stamp of credibility for Aspiral and Fluence's decentralised approach more broadly. Success in China, a highly cost-sensitive market with high wastewater effluent standards (Class 1A), bodes well for its wider prospects. Second, it highlights the huge potential of the China market. In our initiation note, [Time for better treatment?](#) we estimated that initiatives to upgrade rural wastewater treatment was a US\$4.7bn opportunity and that success here was probably the most significant driver of long-term value for investors. Third and finally, it beats our current estimates pencilled in for Aspiral in China at a stroke. We will review numbers more fully after the Q3 trading statement (due before 31st October), but we would note that the risk to our estimates is on the upside. Given Aspiral is relatively high margin, this deal should give investors increasing confidence that the company can hit its target to reach EBITDA breakeven by the end of FY19. We believe uncertainty here has affected Fluence's valuation (see our initiation note); increasing confidence in forecasts could drive a sharp re-rating of the shares.

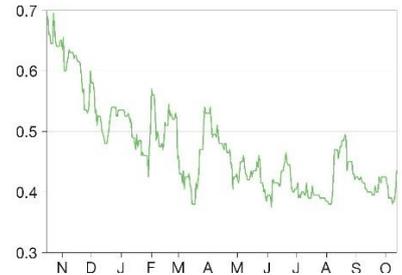
Industrials

15 October 2018

Price **A\$0.44**  
Market cap **A\$191m**

Net debt (US\$m) at 31 December 2018	38
Shares in issue	435m
Free float	60%
Code	FLC
Primary exchange	ASX
Secondary exchange	N/A

### Share price performance



### Business description

Fluence is a global supplier of water and wastewater treatment solutions. Its decentralised products provide municipal customers with 'plug and play' solutions that are both quicker to deploy and substantially cheaper than traditional alternatives.

### Analysts

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