

Speculative

See key risks on page 4, and early-stage company risk warning on page 25. Speculative securities may not be suitable for Retail Clients.

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Authorisation

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Fluence Corporation (FLC)

Targeting a strong 4Q

Recommendation

Hold (unchanged)

Price

\$0.08

Target (12 months)

\$0.10 (previously \$0.125)

Risk

Speculative

Sector

Commercial Services and Suppliers

Expected Return

Capital growth	25.0%
Dividend yield	0.0%
Total expected return	25.0%

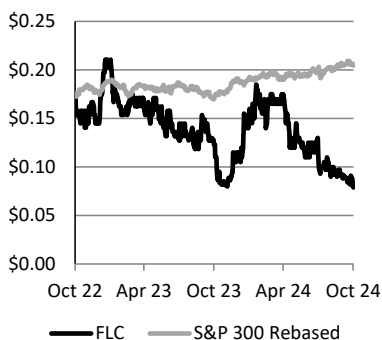
Company Data & Ratios

Enterprise value	\$105.3m
Market cap	\$86.5m
Issued capital	\$1,081m
Free float	82%
Avg. daily val. (52wk)	\$140,000
12 month price range	\$0.078 - \$0.185

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.09	0.13	0.13
Absolute (%)	-13.19	-36.80	-38.97
Rel market (%)	-12.59	-39.94	-58.54

Absolute Price



SOURCE: IRESS

Ongoing contract delays, strong 4Q24 implied for SPS

Fluence (FLC) delivered a mixed 3Q24 trading update. Reported 3Q24 revenue of US\$10.2m was down -14% YOY, taking FY24 YTD revenue to US\$30.3m (down -28% YOY). Although softer than anticipated at headline level, YOY declines primarily reflect unfavourable comparisons associated with the legacy €48m Ivory Coast Addendum (IVC) project, which remained delayed in 3Q24 and is now expected to commence in 4Q24. In contrast, group underlying Smart Product Solutions ('SPS') growth in 3Q24 – a more important barometer of business health in our opinion – was reasonably solid with revenue of US\$9.9m up +11% YOY (flat QOQ). Other aspects include:

Downgrade to FY24: FLC has consequently downgraded FY24e guidance. The group now expects sales of US\$50-60m (prev. \$70-75m | BPe old \$63.1m) and an operating EBITDA loss of -US\$3.5-4.5m (prev. break-even | BPe old -\$3.2m). Whilst disappointing, we estimate that revised guidance implies a strong 4Q24 for SPS of c.US\$19m at the mid-point (vs. \$10.0m in 3Q24 and \$22.5m pcp).

Liquidity: 3Q24 operating cash outflow of -US\$3.5m was improved relative to the -\$6-8m quarterly burn-rate in 1Q and 2Q. Importantly, FLC anticipates an initial milestone from IVC in 4Q24 (+\$4.5m BPe) and believes this should enable positive operating cash in 2H24. FLC has available cash of US\$4.9m (US\$7.5m security deposits) and has expanded its revolving debt facility by +US\$5m to US\$20m to fund working capital.

Other: (1) China sales expected to be down >50% in FY24. FLC is reviewing "all aspects" to restore divisional profitability; (2) Continued improvement in GM with FY24 YTD of 31.8% +160bps YOY; and (3) FLC expects US\$10-20m of new orders in 4Q24.

Investment view: Maintain Hold (Spec) rating

Our sales revisions are -20%, -9% and -2% FY24-26e, whilst forecast FCF break-even remains at FY26e. We view IVC as an onerous, albeit likely transitory, overhang on the FLC share price. Whilst execution risk for the SPS business also remains present, ongoing growth in backlog (US\$70.2m NTM) and pipeline (US\$621m) continues to point toward a potentially meaningful step-up for FLC in FY25e.

Earnings Forecast

Year end 31 Dec	FY23	FY24e	FY25e	FY26e
Sales (US\$m)	70.0	50.1	85.5	101.0
Sales excl. IVC (US\$m)	49.3	45.1	62.0	87.0
Operating EBITDA (US\$m)	0.2	-4.4	1.9	5.3
NPAT (underlying) (US\$m)	-8.4	-7.6	-2.5	0.1
NPAT (reported) (US\$m)	-15.3	-6.2	-2.5	0.1
EPS (adjusted) (AU cps)	-1.70	-1.00	-0.33	0.01
EPS growth (%)	nm	nm	nm	nm
Price/NTA (x)	nm	nm	nm	nm
Adjusted PE (x)	-6.7	-11.4	16.3	1,217.3
EV/Adjusted EBITDA (x)	nm	nm	nm	31.1
FCF Yield (%)	-25.8%	-17.8%	-1.1%	0.0%
Dividend (€ps)	0.0	0.0	0.0	0.0
ROE (%)	nm	nm	nm	1.7%

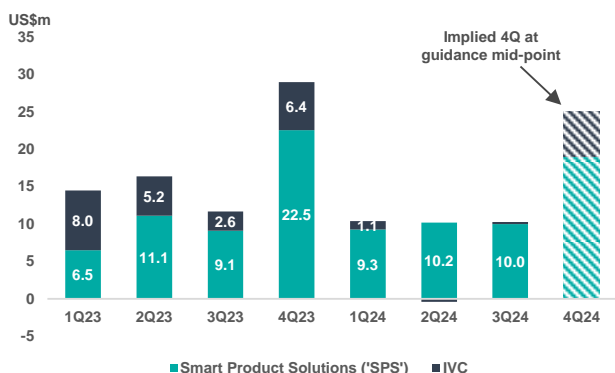
SOURCE: BELL POTTER SECURITIES ESTIMATES

3Q24 – IVC delays, targeting big 4Q

Financial highlights and analysis

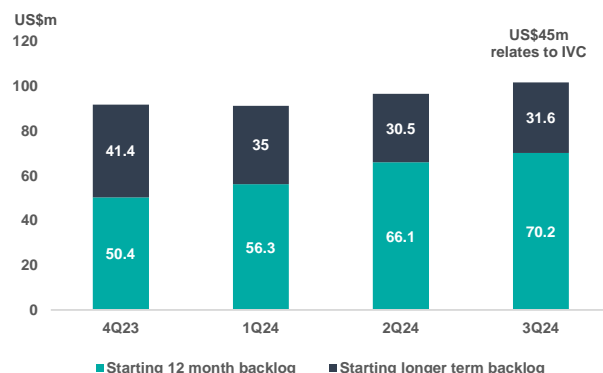
- 3Q24 SPS revenue US\$9.9m +11% YOY. YTD growth achieved across most SPS business lines excl. China, which the group expects to be down >50% in FY24e.
- Whilst 4Q24 presents as a difficult comparison for FLC, we estimate that revised guidance implies a strong 4Q24 for SPS of c.US\$19m at the mid-point (vs. \$10.0m in 3Q24 and \$22.5m pcq).
- 3Q24 operating EBITDA of -US\$1.5m was improved vs. -US\$3.1m in pcq (reflecting recent cost-out initiatives) but below expectations following the soft 1H24 (-US\$3.6m).
- Solid gross margin improvement with FY24 YTD GM of 31.8% up +160bps, albeit benefitting from materially less IVC work vs. pcq.
- FLC has achieved FY24 YTD new orders of US\$40.5m (+3% YOY). The group is forecasting a further +\$10-20m in 4Q24.

Figure 1 - Quarterly SPS revenues (US\$m)



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 2 – Fluence backlog growth (US\$m)

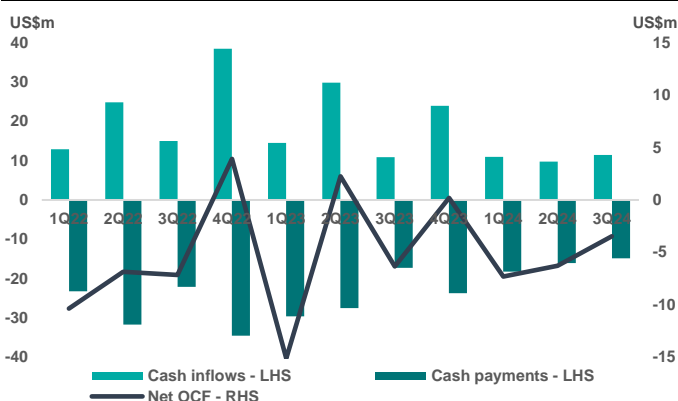


SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Cash flow and balance sheet

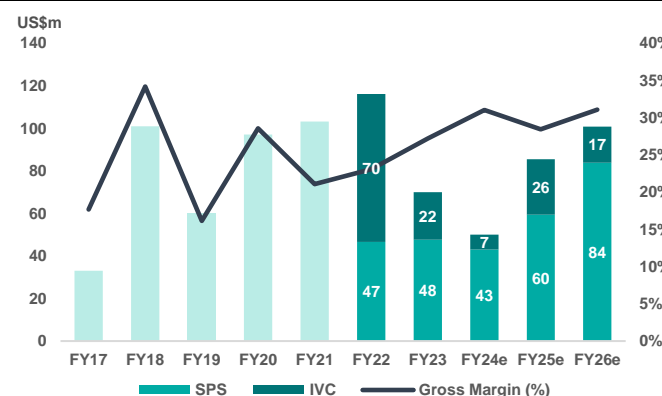
- 3Q24 operating cash outflow of -US\$3.5m was improved relative to the -\$6-8m quarterly burn-rate in 1Q and 2Q. Importantly, FLC anticipates an initial milestone from IVC in 4Q24 (+\$4.5m BPe) and sees this enabling positive 2H24 operating cash.
- FLC has available cash of US\$4.9m (US\$7.5m security deposits) and has expanded its revolving debt facility by +US\$5m to US\$20m to fund working capital in the interim.

Figure 3 - Cash flow trends quarter on quarter



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 4 - Fluence revenue growth outlook (US\$m)



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Fluence Corporation (FLC)

Company Description

Fluence Corporation (FLC) is a global supplier of decentralised water treatment solutions for plant asset operators in municipal, commercial, and industrial markets.

Investment View and Thesis

We are Hold (Spec) rated on FLC. Our valuation of \$0.10ps is derived through an equal weighted blend of DCF and EV/Sales valuation methodologies: For DCF we utilise a WACC of 12.0% and TGR of 3.5%. Our relative valuation marks FLC at a 40% discount to the average FY25e EV/Sales (excl. IVC) of FLC's peer group given the IVC contract overhang and elevated execution risk associated with FLC's SPS turnaround.

High upside turnaround play: Fluence is in turnaround phase under a new management team with a history of transformational growth and shareholder value creation in past water treatment exits, including for FLC's direct competitors. At a high-level, the new strategy involves exiting lump-sum contracting (15% GM) for repeatable 'Smart Product Solutions' (25-40% GM) and entering more developed private water treatment markets (e.g. USA). FLC's aspirational FY26-27e goal is to reach sales of US\$120m at 10% operating EBITDA margin, suggesting potentially material upside to our FY26e forecast.

Investing in megatrends: Water scarcity, regulation, and sustainability are driving an increased focus on treatment and reuse solutions. This is especially true as global municipalities and industrial companies commit to ESG/sustainability mandates, in many cases receiving ROI incentives on "green" capital. We believe FLC offers strong leverage to a double-digit 'mid-market' water infrastructure investment cycle, with FLC's drop-in plant solutions both highly scalable and in most cases offering cost advantages over existing treatment methods.

Disruptive 'MABR' technology: In particular, FLC has a proven technical and cost advantage in one of its core products for the treatment of nutrient pollution – one of the most widespread and costly forms of water contamination globally. Many states in the US are in the process of mandating nutrient discharge limits for wastewater treatment plants, which we estimate could see FLC's addressable market expand by 5-6x over the mid-term.

Highly acquisitive industry: Recent transactions for product portfolios and technology similar to FLC have ranged between 12.5x to 18.5x trailing EV/EBITDA, suggesting material upside to FLC's valuation upon successful execution.

Key Risks

Execution risk: FLC is a turnaround. Failure of management to successfully implement the company's turnaround strategy may impact the ability of FLC to achieve our forecasts.

Contract burn rate: Although FLC has a deliberate strategy to shift the business mix towards smaller projects and service level revenues, growth of current contracts plus the rate of new contract wins must exceed the contract "burn rate" to sustain growth. A decline in industrial activity and/or regulatory drivers increases risk of a decline in book size.

Access to capital markets: Although we believe FLC has sufficient funding headroom to see the business back to self-funding profitability, the company may require access to capital to fully execute on its turnaround. Access to equity and debt markets may change based on economic conditions, geopolitical issues, as well as the risk appetite of credit providers and equity investors.

Technology acceptance: Influencing factors for customers include pricing versus other solutions, recommendations of water treatment system integrators and design engineers, acceptance by local regulators, appetite to invest in new technologies and effective communication and education regarding the perceived advantages of FLC's products.

Counterparty risks: Individual suppliers may not be able to meet demand for the supply of materials and could adversely affect FLC's ability to meet delivery commitments. Similarly, FLC relies on the financing arrangements of counterparties when delivering its solutions.

Contracting risk: FLC regularly enters contracts with customers that exceed US\$1m. Successful execution of such contracts is imperative for the success of FLC. Most notably, the Ivory Coast project represents a significant share of Fluence's current revenue.

Currency: FLC undertakes transactions denominated in non-USD currency and is exposed to foreign currency risk, the greatest of which include the Euro, Argentinian Peso, Egyptian Pound and the Brazilian Real.

Fluence Corporation

as at 31 October 2024

Recommendation **Hold, Speculative**

Price **\$0.08**

Target (12 months) **\$0.10**

Table 1 - Financial summary

Post-AASB 16						Share price (AU\$)					
Dec year end	2022	2023	2024e	2025e	2026e	Share price (AU\$)					
Profit & Loss (US\$m)						Target price (AU\$)	0.10				
Sales revenue						Rating	Hold (Spec)				
...	116.3	70.0	50.1	85.5	101.0	Issued capital (m)	1081.0				
... Growth (%)	12.5%	-39.8%	-28.5%	70.6%	18.1%	Market cap (AU\$m)	86.5				
Gross Profit						Enterprise value (AU\$m)	105.3				
... Margin %	23.1%	27.2%	31.1%	28.5%	31.1%	Free Float	82%				
EBITDA (normalised)						Note: Enterprise value includes operating leases. Assumed flat AUD/USD conversion rate of 0.70.					
... Margin %	1.1	(1.7)	(6.3)	(0.0)	3.4						
Depreciation & amortisation	(2.2)	(2.0)	(1.9)	(1.9)	(1.9)						
EBIT	(1.1)	(3.7)	(8.2)	(1.9)	1.5						
Net interest	(4.0)	(5.7)	(2.1)	(1.5)	(1.4)						
Pre tax profit	(5.1)	(9.4)	(10.2)	(3.4)	0.1						
Tax expense	0.0	1.0	2.7	0.9	(0.0)						
Normalised NPAT	(5.1)	(8.4)	(7.6)	(2.5)	0.1						
Abs. & extras.	(10.2)	(6.9)	1.4	-	-						
Reported Profit	(15.3)	(15.3)	(6.2)	(2.5)	0.1						
Pre-AASB16 operating results:											
EBITDAL	-0.4	-2.7	-7.4	-1.1	2.2						
Cashflow (US\$m)											
Operating EBITDA	2.8	0.2	-4.4	1.9	5.3						
Change in Working Capital	-7.4	-3.8	-1.3	1.8	-0.9						
Net Interest	-3.9	-5.7	-3.9	-1.8	-1.4						
Tax Paid	-0.1	-0.2	0.0	0.0	0.0						
Other Residual Items	-11.8	-9.5	-3.0	0.0	0.0						
Operating cashflow	(20.5)	(19.0)	(12.6)	1.9	2.9						
AASB 16 Leases	-1.6	-1.4	-1.0	-1.0	-1.1						
Lease adjusted OCF	(22.1)	(20.4)	(13.6)	0.9	1.8						
Capital Expenditure	-0.4	-1.8	-1.8	-1.8	-1.8						
Free cashflow	(22.5)	(22.2)	(15.4)	(0.9)	(0.0)						
Dividends Paid	0.0	0.0	0.0	0.0	0.0						
Asset Sales	0.3	0.1	2.0	0.0	0.0						
Acquisitions	0.0	0.0	0.0	0.0	0.0						
Other	18.2	2.6	0.0	0.0	0.0						
Equity Issues(Reduction)	3.7	26.6	0.0	0.0	0.0						
Change in Cash Position	-0.3	7.1	-13.4	-0.9	0.0						
Balance Sheet (US\$m)											
Cash	30.9	24.6	7.7	6.8	6.7						
Short & long-term deposits	13.6	8.0	8.0	8.0	8.0						
Receivables	21.1	16.9	15.0	18.0	20.2						
Inventry	8.6	5.7	5.0	6.8	8.1						
Property, Plant & Equipment	8.8	8.1	10.7	11.8	13.0						
Contract assets	27.4	18.4	18.4	18.4	18.4						
Intangibles (excl. goodwill)	1.3	1.1	1.1	1.1	1.1						
Goodwill	-	-	-	-	-						
Other assets	11.8	10.2	14.3	13.9	12.4						
Total Assets	123.6	93.1	80.2	84.8	87.9						
Trade payables	28.2	13.9	10.0	17.1	20.2						
Accrued expenses (PDVSA)	23.0	18.5	18.5	18.5	18.5						
Contract liabilities	24.8	22.4	22.4	22.4	22.4						
Debt	31.3	17.8	14.2	14.2	14.2						
Lease liabilities	3.1	1.5	1.5	1.5	1.5						
Other	10.3	6.9	6.9	6.9	6.9						
Total Liabilities	120.7	80.9	73.5	80.5	83.6						
Net Assets	2.9	12.2	6.7	4.2	4.3						
Share capital	207.4	232.3	232.3	232.3	232.3						
Reserves	-3.7	-3.3	-3.3	-3.3	-3.3						
Retained earnings	-198.9	-214.9	-220.4	-222.9	-222.8						
Minorities	-2.0	-2.0	-2.0	-2.0	-2.0						
Shareholders Equity	2.9	12.2	6.7	4.2	4.3						
Core Net Debt (Cash)											
	0.3	(6.8)	6.6	7.5	7.5						
Short & long-term deposits	(13.6)	(8.0)	(8.0)	(8.0)	(8.0)						
AASB 16 leases	3.1	2.1	1.5	1.5	1.5						
Accrued expenses (PDVSA)	23.0	18.5	18.5	18.5	18.5						
Group indebtedness (US\$m)	12.9	5.8	18.5	19.5	19.5						
Valuation Ratios											
Adjusted NPAT (A\$m)	-7.3	-12.0	-10.8	-3.6	0.1						
Adjusted EBITDA (A\$m)	1.6	-2.4	-9.0	0.0	4.8						
Core EPS (US cps)	-0.80	-1.19	-0.70	-0.23	0.01						
Core EPS (AU cps)	-1.14	-1.70	-1.00	-0.33	0.01						
EPS growth (%)	nm	49.5%	-41.2%	-66.9%	-102.8%						
Adjusted PE (x)	-10.0	-6.7	-11.4	16.3	1,217.3						
EV/Adjusted Sales	0.6	1.1	1.5	0.9	0.7						
EV/Adjusted Sales excl. IVC	1.6	1.5	1.7	1.2	0.9						
EV/Adjusted EBITDA (x)	96.5	-61.8	-16.7	-3,978.4	31.1						
NTA per share (A\$ps)	nm	0.01	0.01	0.00	0.00						
P/NTA (x)	nm	5.44	10.77	19.49	19.05						
DPS (cps)	0.0	0.0	0.0	0.0	0.0						
Payout on reported EPS	0.0%	0.0%	0.0%	0.0%	0.0%						
Dividend Yield %	0.0%	0.0%	0.0%	0.0%	0.0%						
Franking (%)	100%	100%	100%	100%	100%						
FCF per share (cps)	nm	-2.1	-1.4	-0.1	0.0						
FCF yield %	nm	-25.8%	-17.8%	-1.1%	0.0%						
Performance Ratios											
Group EBITDA margin (%)	0.9%	-2.4%	-12.6%	0.0%	3.4%						
Group EBIT margin (%)	-1.0%	-5.3%	-16.3%	-2.2%	1.5%						
OCF Realisation to EBITDAL (%)	nm	nm	nm	-78.3%	81.5%						
FCF Realisation to NPAT (%)	nm	nm	nm	36.2%	-41.2%						
ROE (%)	-175.1%	-68.7%	-112.4%	-59.2%	1.7%						
ROIC (%)	-70.6%	-86.4%	-87.5%	-15.4%	12.7%						
Asset turns (years)	-0.4	-2.9	-10.0	-1.6	3.7						
Capex/Depn excl. leases (x)	0.5	1.9	2.5	2.6	3.1						
EBIT interest cover	(0.3)	(0.7)	(4.0)	(1.3)	1.1						
Net debt to equity (%)	16.3%	-79.5%	139.1%	252.2%	249.0%						

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

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