

10 December 2024

## Fluence Corporation

### Material project gets the green light

Fluence Corporation (ASX:FLC) specialises in the delivery of water and wastewater solutions in industrial, municipal and commercial industries across the globe. The company has announced it has received the notice to proceed from ONEP, The Ivory Coast National Drinking Water Organisation, in respect to the €48.4m addendum to its contract to construct the 150,000 m<sup>3</sup>/day Lagube D'Aghien Water Treatment Plant. This is a critical step in the progress of the previously delayed IVC project. The project delay was the main driver behind the recent company downgrade, so its progress is a material positive and FLC now expects some revenue generation from IVC by calendar year-end (RaaS estimates US\$5m in the current half), and the release of a material milestone payment in the next one to three months, providing cash-flow relief and leaving the business fully funded in the short to medium term. We expect the balance of the project revenue to be delivered over the next 18 months (as per existing forecasts). The announcement gives comfort that ongoing delays are now unlikely and this large legacy project should no longer dilute business growth in other areas, most notably the progress made in the municipal, industrial and waste-to-energy businesses. Our forecasts remain unchanged as we had assumed the IVC notice to proceed would be received by calendar year-end. We retain our DCF-based valuation of \$0.20/share.

#### Business model

Fluence is a diversified business, by product, customer profile and geography, and derives revenue from the design and sale of equipment solutions for water and wastewater treatment in municipal, industrial and commercial settings. This is complemented by the ongoing provision of parts and service, and operation and maintenance contracts.

#### Progress of the IVC legacy project a major milestone

The financial impact of the IVC project delay had previously driven short-term negative sentiment and financial disappointment, and although it was a clear representation as to why management is strategically pivoting away from such projects, the fact that it will now proceed is a material positive and improves the short- to medium-term earnings risk profile of the group. Management's strategic shift towards recurring revenue and higher-margin SPS projects (Smart Product Solutions) will increasingly become a core focus of the growth story as it is building momentum with year-to-date revenue as at 30 September of US\$29.5m (+11% over pcp) and a significant \$1.16b pipeline of opportunities (+88% over Q3 FY23). Management believes conversion will now accelerate and point to a strong Q4 providing good momentum into a "materially improved FY25".

#### Base-case DCF valuation is \$0.20/share

RaaS forecasts remain unchanged and our discounted cash-flow (DCF) valuation is retained at \$0.20/share. All forecasts and reported financials are in US\$, so we have adjusted the DCF valuation and all per-share metrics at an A\$/US\$ exchange rate of US\$0.65. Our valuation represents ~150% upside potential from the current share price.

Historical earnings and RaaS Research Group estimates (in US\$m). Per-share metrics adjusted to A\$.

Year end	Revenue	Gross profit	EBITDA adj.*	NPAT adj.	EPS adj. (c)	EV/Sales (x)	EV/EBITDA (x)	PER (x)
12/22a	116.3	26.8	0.5	(18.8)	(1.9)	0.3	68.4	n.a.
12/23a	68.8	17.8	0.2	(18.1)	(1.7)	0.4	159.1	n.a.
12/24f	51.2	16.2	(4.4)	(11.9)	(1.1)	1.2	n.a.	n.a.
12/25f	93.0	25.6	5.2	1.1	0.1	0.7	11.6	56.7
12/26f	93.5	29.5	6.5	1.4	0.2	0.6	8.8	42.6

Source: Company data; RaaS Research Group estimates for FY24F-FY25F; Adjusted for one-time and non-cash items

#### Share Details

ASX code	FLC
Share price (9-Dec)	\$0.079
Market capitalisation	\$85.3M
Shares on issue	1,080M
Net debt at 30-Sep-2024	US\$10.7M
Free float	~59%

#### Share Price Performance (12 months)



#### Upside Case

- New contract win-rate ahead of forecasts
- The emergence of a clear BOO model backed by contract wins
- M&A opportunities

#### Downside Case

- Failure or delays in conversion of pipeline
- Margin expansion story doesn't play out
- Further Ivory Coast delays

#### Catalysts

- Strong FY25 contract win-rate
- Proof of strong US traction
- Ongoing evidence of margin expansion story

#### Board of Directors

Doug Brown	Chair
Tom Pokorsky	CEO/Managing Director
Paul Donnelly	Non-Executive Director
Mel Ashton	Non-Executive Director
Nikolaus Oldendorff	Non-Executive Director

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# FINANCIAL SERVICES GUIDE

## RaaS Research Group Pty Ltd

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Corporate Authorised Representative, number 1248415, of

BR SECURITIES AUSTRALIA PTY LTD; ABN 92 168 734 530; AFSL 456663

Effective Date: 26<sup>th</sup> March 2024

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  - Securities

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Website: [www.afca.org.au](http://www.afca.org.au); Email: [info@afca.org.au](mailto:info@afca.org.au); Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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