EOLUS VIND – 62PC THERE

CEO Per Witalisson stopped by this week for a chat. Other than an update on the ongoing projects, we spent some time discussing the company`s balance sheet and future activity levels.

Fiscal Q4 has been an eventful one with the huge 400MW Øyfjellet (40pc of the «2018-21 9bn plan») sold and both Sotterfallan (36MW) and Nylandsbergen (68MW) completed. That means all ongoing construction (Wind Wall tbd) from next fiscal year is financed by customers. Delivering Kråktorpet next qtr means 38pc of the plan has been delivered by YE 2019. With Øyfjellet returning EUR 30m in upfront project profit and another EUR 23m to be booked under the construction agreement (Q4 `21 delivery), approx 62pc of the economic interests of the plan are already secured, with profits being smoothed over the period according to IFRS 15.

Eolus keeps adding service agreements as projects are delivered, aiming for 1250MW already at a SEK 100k/turbine revenue level, easily adding SEK 40m in revenues at a 15pc margin in recurring business. That adds SEK 4/shr alone in value in my model.

As cash is being released upon completion of the projects and financing options for the heavy last 6 mths construction phase (70pc of costs) are increasing, I think it is fair to assume that the company will be looking over its cash needs at the 31/8 YE. My own thinking is that the current SEK 600m cash buffer can be reduced by 400-600m, setting shareholders up for a SEK 15/shr eo dividend for fiscal 2018/19. There is an additional SEK 800m to be distributed to shareholders over the period ending 2021, allowing for an approx SEK 8-10/shr dividend pa over the next 3-4 years. All told, I upgrade my 2019-22 divi target from SEK 32/shr to SEK 47/shr. The company reports it`s FY on Oct 23rd.

Regarding future activity levels after having delivered on the «9bn-plan», CEO Witalisson seems confident that the company will be able to deliver at least 200MW pa. Considering it`s 3500MW project portfolio that ought to be conservative. Assuming it`s SEK 15-20m rev/MW holds and a cautious 10pc margin (11-12pc is more realistic considering their track record), that looks like a minimum SEK 3bn continued revenue level and SEK 8 EPS pa also after 2021.

That means investors are paying just over 5x earnings for this (about to become even more) capital light high cash conversion business model after having extracted SEK 47 in dividends following delivery of the «9bn-plan». In short, I maintain my model on Eolus as outlined here https://www.harpooncapital.no/resources/EOLUS%20VIND.pdf but add SEK 15 in divis and hike my target to SEK 200.

SEKm	pr QTR smoothed
Revenues	750
EBIT%	12 %
SGA	-17
net finance	-3
Pretax	70
Net	**55**
EPS	**2,19**
FCO	**62**

SEKm	310519
Fixed assets	120
Current assets	2091
`-of which cash	359
LT debt	199
St debt	1202
Equity	809
Net working ca	**889**

Oslo 060919

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