

Nel

BUY

Key share data

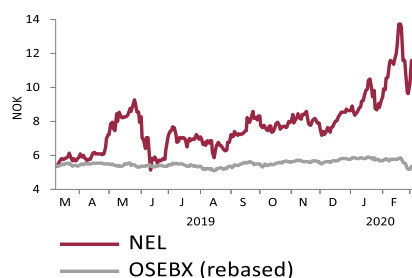
Sector	Industrials
Reuters	NEL.OL
Bloomberg	NEL NO

Market Cap (NOKm)	14,265
Net debt (NOKm)*	-1,304
EV (NOKm)*	12,961
Net debt / equity*	-49%

Issued shares (m) 1,311

* Incl. recent private placement

Share price performance



Performance

	1m	3m	12m
NEL	10%	51%	100%
OSEBX	-10%	-7%	-4%

Upcoming events

1Q 2020 report	May 7, 2020
AGM	May 13, 2020
CMD	June, 2020
2Q 2020 report	August 26, 2020
3Q 2020 report	November 5, 2020

Norne Securities AS acted as a selling agent in a private placement and subsequent offering in Nel in winter/spring 2019

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Long awaited firm Nikola news likely not far away

NEL's 4Q revenues were a pleasant surprise, while EBITDA was in line. Overall, there was no breaking news in the report, but the green hydrogen case is getting stronger with time and NEL is in a pole position to benefit. Therefore, we keep our Buy recommendation at a higher TP of NOK 15/sh.

Strong 4Q revenues; EBITDA in line with the recent guidance

NEL's 4Q revenues of NOK 176m were above our and the consensus expectations (ca NOK 160m). NEL guided for 4Q revenues to be slightly higher vs 3Q and the reported growth was 18% QoQ. Reported and adj. EBITDA were NOK -43m and NOK -27m, largely in line with the guidance of NOK -45m and NOK -25m respectively. Bottom line was further negatively affected by the share of loss from associates and JVs of NOK -26m, related to the investment in UnoX Hydrogen AS. Cash position including the recent private placement was NOK 1.3bn before the subsequent offering of another 13.5m shares.

All-time-high pipeline; year usually starts slow

All-time-high pipeline was reported, while order backlog was at NOK 513m at the end of the year, which is up 46% YoY but down from NOK 575m a quarter ago. Notably, Nel is experiencing increased number of inquiries for larger scale projects. Still, the year usually starts slow and NEL guides for 1Q20 to be lower than 4Q19 in terms of revenue (same with 1H vs 2H20).

No big additional news on Nikola now but hopefully in 1H 2020

No news related to Nikola was mentioned apart from the recent merger with VectoIQ Acquisition Corp. and listing on NASDAQ. Nel and Nikola are still working on techno-economical optimization of the commercial station solution and NEL expects the process to be finished in 1H20. Notably, Nikola is calculating CAPEX of USD 16.6m per 8t hydrogen station in its business model. This includes about USD 1.8m for land/buildings. What is more, Nikola is planning 1,200 8t equivalent station rollout across North America vs earlier mentioned figure of 700.

Accelerating investments to prepare for major projects

Herøya expansion to 360MW is at full speed and Nel is accelerating investments in technology, people and capacity after the successfully completed private placement recently. More news is expected at the CMD in June this year.

TP up to NOK 15/sh; Buy stays

All in all, we did not see major news in the report, but adjusted our estimates according to the latest news from Nikola. Our updated rough valuation of Nikola contract points to NOK 9-10/NEL share value, which is for one client in one of potentially many huge application areas of green hydrogen. In addition, NEL is still priced at about half of the most relevant peers and lags the major upswing in the hydrogen stocks over the past 12m+. Therefore, we comfortably keep our Buy recommendation at a higher TP of NOK 15/sh seeing that green hydrogen is happening big time, it is being noticed by big money and there is an expectation of firm Nikola-related news in 1H 2020.

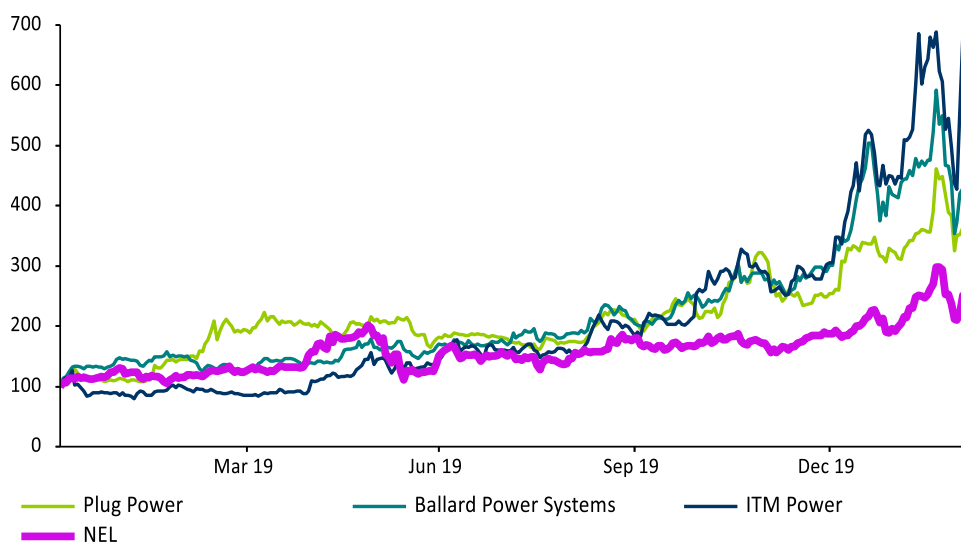
Estimate changes (NOKm)	4Q19		1Q20E		2020E		2021E		2022E		2023E
	Act.	Est.	New	Old	New	Old	New	Old	New	Old	New
Net sales	176	160	164	190	867	944	1,089	1,126	1,320	2,772	3,136
EBITDA (adj)	-27	-21	-20	-3	-30	40	20	72	132	554	627
EBITDA (adj) margin	-15%	-13%	-12%	-2%	-3%	4%	2%	6%	10%	20%	20%
EBIT (adj)	-41	-33	-33	-15	-83	-11	-44	14	69	496	564
EBIT (adj) margin	-23%	-20%	-20%	-8%	-10%	-1%	-4%	1%	5%	18%	18%
Non-recurring items	-23	-16	-37	-14	-92	-42	-27	-27	-27	-27	-27
EBIT	-63	-48	-70	-29	-176	-53	-71	-14	42	469	537
Pre-tax profit	-95	-49	-69	-30	-166	-55	-61	-16	51	466	545
Tax	2	3	4	2	9	3	3	3	-8	-75	-87
Tax rate	2%	5%	5%	5%	5%	5%	5%	16%	16%	16%	16%
Profit after tax	-93	-47	-65	-28	-157	-52	-58	-14	43	391	458

Peer comparison

USDm	Source	Market Cap.	EV*	P/B** Last	EV/Sales		EV/EBITDA*	
					2020E	2021E	2020E	2021E
NEL	Norne	1,534	1,394	5	15	12	neg	>500
ITM Power PLC	Bloomberg	873	800	9	117	38	na	na
Plug Power Inc		1,395	1,857	10	6	5	126	47
Ballard Power Systems Inc		2,491	2,357	10	18	14	na	na
PowerCell Sweden AB		1,130	1,083	19	97	39	na	na
Ceres Power Holdings PLC		817	727	7	27	22	na	na
Median				10	27	22	na	na

* Calculated applying the last reported Balance Sheet and last Market Capitalization ** Including the latest equity issues

Relative Hydrogen stock price performance since 01/01/2019



Source: Refinitiv Eikon

Profit & Loss (NOKm)	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Operating revenues	114	302	489	570	867	1,089	1,320	3,136
Operating expenses	-149	-331	-539	-661	-897	-1,069	-1,188	-2,509
EBITDA	-35	-29	-49	-91	-30	20	132	627
Depreciation & Amortisation	-10	-16	-28	-48	-53	-63	-63	-63
EBIT (adj)	-45	-45	-77	-139	-83	-44	69	564
Non-recurring items	-10	-72	-119	-115	-92	-27	-27	-27
EBIT	-55	-117	-196	-255	-176	-71	42	537
Net interest & other financial effects	-7	-7	-1	-23	10	10	10	9
Pre-tax profit	-63	-124	-198	-277	-166	-61	51	545
Minority interests/Extraordinary items	-	-	-	-	-	-	-	-
Taxes	7	72	9	8	9	3	-8	-87
Profit after tax	-56	-52	-189	-270	-157	-58	43	458
EPS rep. (NOK)	-0.08	-0.05	-0.17	-0.22	-0.12	-0.04	0.03	0.35
EPS adj. (NOK)	-0.07	-0.04	-0.06	-0.11	-0.05	-0.02	0.05	0.37
Margins								
Operating margin	-39%	-15%	-16%	-24%	-10%	-4%	5%	18%
ROE	-12%	-6%	-8%	-12%	-4%	-2%	3%	22%
ROCE	-6%	-4%	-5%	-7%	-3%	-2%	2%	18%
Tax rate	11%	58%	4%	3%	5%	5%	16%	16%
Growth rates (YoY)								
Operating revenues	15%	164%	62%	16%	52%	26%	21%	138%
EBIT (adj)	nm	nm	nm	nm	nm	nm	nm	720%
EPS (adj)	nm	nm	nm	nm	nm	nm	nm	628%

Cash flow statement (NOKm)	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Pre-tax profit (loss)	-63	-124	-198	-277	-166	-61	51	545
Taxes paid	-	1	-	-	-	-	-	-
Depreciation, amortisation & impairments	10	40	64	76	80	90	90	90
Change working capital	-16	-174	-3	-72	-64	6	-72	-588
Other items	34	196	-6	65	-10	-10	-10	-9
Net cash flow from operating activities	-34	-63	-143	-208	-159	25	60	40
CAPEX tangibles	-45	-52	-95	-119	-146	-37	-39	-40
CAPEX intangibles	-	-34	-	-	-27	-27	-27	-27
Other	-16	-178	-49	-15	-	-	-	-
Net cash flow from investing activities	-60	-263	-143	-134	-173	-64	-66	-67
Change in debt	-	-	27	-	-	-	-	-
Change in equity	7	401	319	526	931	-	-	-
Other	-0	-3	-6	-7	0	1	1	-1
Net cash flow from financing activities	7	398	341	518	932	1	1	-1
Change in cash and cash equivalents	-88	72	55	176	600	-38	-6	-28

Balance sheet (NOKm)	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Goodwill	318	592	609	609	609	609	609	609
Deferred tax asset	-	-	-	-	-	-	-	-
Licences, property, plant & equipment	132	523	625	765	867	850	835	820
Other intangible assets	14	27	72	66	66	66	66	66
Non-current Assets	463	1,141	1,306	1,440	1,542	1,525	1,510	1,496
Inventory	36	139	135	205	285	265	327	776
Receivables	35	97	109	183	236	227	275	652
Other current assets	3	54	41	76	76	76	76	76
Cash and cash equivalents	225	295	350	526	1,126	1,088	1,082	1,054
Current Assets	300	584	634	990	1,722	1,655	1,759	2,558
Total assets	763	1,726	1,940	2,431	3,264	3,180	3,269	4,054
Shareholders equity	671	1,409	1,579	1,847	2,621	2,563	2,606	3,064
Non-controlling interests	-	-	-	-	-	-	-	-
Total equity	671	1,409	1,579	1,847	2,621	2,563	2,606	3,064
Deferred tax liability	14	68	65	63	63	63	63	63
Long-term interest bearing debt	10	7	32	31	31	31	31	31
Other long-term liabilities	3	28	74	150	150	150	150	150
Non-current liabilities	26	102	172	244	244	244	244	244
Current interest bearing debt	-	-	-	-	-	-	-	-
Trade payables	17	65	69	92	160	137	174	414
Other current liabilities	49	149	120	248	240	237	245	332
Current liabilities	66	214	189	340	400	373	419	746
Total liabilities	92	316	361	584	644	617	663	990
Total liabilities and equity	763	1,726	1,940	2,431	3,264	3,180	3,269	4,054
Working capital	54	171	174	296	360	355	427	1,015
Net IB debt	-215	-288	-318	-495	-1,095	-1,057	-1,051	-1,023
Capital employed	697	1,512	1,750	2,090	2,864	2,807	2,850	3,308
Net IB debt / equity	-32%	-20%	-20%	-27%	-42%	-41%	-40%	-33%
Equity / total assets	88%	82%	81%	76%	80%	81%	80%	76%

Share data	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Shares outstanding, year end (mill.)	683.678	998.715	1,113.551	1,222.103	1,311.103	1,311.103	1,311.103	1,311.103
Share price, year end (NOK)	2.03	3.34	4.61	8.65	10.88	10.88	10.88	10.88
Market cap (NOKm)	1,385	3,336	5,138	10,571	14,265	14,265	14,265	14,265
Enterprise value (NOKm)	1,170	3,047	4,820	10,076	13,170	13,208	13,213	13,242
EPS rep. (NOK)	-0.08	-0.05	-0.17	-0.22	-0.12	-0.04	0.03	0.35
EPS adj. (NOK)	-0.07	-0.04	-0.06	-0.11	-0.05	-0.02	0.05	0.37
DPS. (NOK)	-	-	-	-	-	-	-	-

Valuation	2016	2017	2018	2019	2020E	2021E	2022E	2023E
EV/Sales	11.9	10.6	10.3	18.7	15.2	12.1	10.0	4.2
EV/EBITDA	neg	neg	neg	neg	neg	>100	>100	21.1
EV/EBIT (adj)	neg	neg	neg	neg	neg	neg	>100	23.5
P/E (adj)	neg	neg	neg	neg	neg	neg	>100	29.7
P/B (excl. goodwill)	3.9	4.1	5.3	8.5	7.1	7.3	7.1	5.8

Growth (YoY)	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Revenues	15%	164%	62%	16%	52%	26%	21%	138%
EBITDA	nm	nm	nm	nm	nm	nm	571%	375%
EBIT (adj)	nm	nm	nm	nm	nm	nm	nm	720%
Pre-tax profit (rep)	nm	nm	nm	nm	nm	nm	nm	961%
Net profit (rep)	nm	nm	nm	nm	nm	nm	nm	961%
EPS (rep)	nm	nm	nm	nm	nm	nm	nm	961%
EPS (adj)	nm	nm	nm	nm	nm	nm	nm	628%

Margins	2016	2017	2018	2019	2020E	2021E	2022E	2023E
EBITDA	-30 %	-10 %	-10 %	-16 %	-3 %	2 %	10 %	20 %
EBIT (adj)	-39 %	-15 %	-16 %	-24 %	-10 %	-4 %	5 %	18 %
Pre-tax profit	-55 %	-41 %	-40 %	-49 %	-19 %	-6 %	4 %	17 %
Net profit	-49 %	-17 %	-39 %	-47 %	-18 %	-5 %	3 %	15 %

Profitability	2016	2017	2018	2019	2020E	2021E	2022E	2023E
ROE	-12 %	-6 %	-8 %	-12 %	-4 %	-2 %	3 %	22 %
ROCE	-6 %	-4 %	-5 %	-7 %	-3 %	-2 %	2 %	18 %
Dividend yield	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %

Recommendation, valuation, risk and sources

Recommendation and target price

Recommendation history for Nel during the previous 12 months:

Date	Recommendation	Target price (NOK)
06/03/2020	Buy	15.00
08/11/2019	Buy	11.95
29/08/2019	Buy	11.95
01/07/2019	Buy	11.95
09/05/2019	Buy	11.95
26/04/2019	Buy	11.95
11/03/2019	Buy	7.00
07/11/2018	Buy	6.00

Valuation

To arrive at our share price target, we have looked at the NPV of the potential Nikola contract as just one of potential huge application areas of hydrogen. We also looked at NEL's pricing vs peers.

Risks

The main risks to our target price on Nel are the following:

- Safety is of key importance for hydrogen adoption and company's focus on that is fundamental for our assumptions to materialize.
- The key for our estimate/TP materialization is for the potential of the contracts to be realized beyond the initial firm orders (Nikola in particular).
- Hydrogen produced via electrolysis is still in early stage of adoption in various new applications. Other solutions might prove to be more attractive and hydrogen might not reach the potential that is expected currently.
- R&D risk, as one of the key factors for electrolysis to become more competitive is to bring the costs down. Nel is working on several projects, which might (not) yield the expected results.
- The company is investing heavily into new capacity electrolyser additions – CAPEX overruns and failure for expected production cost reductions to materialize pose a significant risk.
- Legal risk – the company has many patents on which the business is based. Challenge of these by competitors/suppliers/other third parties pose a risk.
- The company's revenue stream is mostly in USD and EUR, which pose a significant currency risk.
- Political risk – government support is still key for many of the company's projects like support from Enova in Norway and grants in the US.
- Access to capital – the company is in a strong growth phase, which requires investments into working capital and new production capacity.

Sources

The sources used in the preparation of this report were: Nel, Oslo Stock Exchange, Infront, Bloomberg and Refinitiv Eikon.

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Risk	Total return next 12 months (upside to target price)		
	Buy	Hold	Sell
Low	> 10%	2% - 10%	< 2%
Medium	> 15%	3% - 15%	< 3%
High	> 25%	5% - 25%	< 5%

Our risk assessments range from “high risk” to “medium risk” and “low risk” and are based on a subjective assessment of the following factors: 1) volatility in the share price, 2) liquidity in the share, 3) strength of the balance sheet, 4) absolute earnings level and trend and 5) estimate risk.

Share prices used in the report are as of market close on the last trading day if the report is being published before the stock market opening, or market price within 15 min. before the publication if the report is published during the trading hours of the Oslo Stock Exchange.

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POTENTIAL CONFLICTS OF INTEREST

Norne Securities AS acted as a selling agent in a private placement and subsequent offering in Nel in winter/spring 2019.

This report has not been presented to the issuer before dissemination for a check of factual information.

Share holdings of Norne employees in Nel:

Responsible analyst(s)	0
All Norne analysts	613
Other Norne employees	0
Norne Securities AS	0

The overview of share holdings is updated continuously. A list of total share holdings of the Norne Securities' employees and the date of last overview can be found on <https://www.norne.no/compliance/>. Shareholdings that Norne Securities AS owns as a result of own-account trading that is part of its investment services operations (such as market making) are not included in the table above.

Distribution of Norne Securities' recommendations during three months up till December 31, 2019:

	Buy	Hold	Sell
Total recommendations	43	41	4
% of total	49%	47%	5%
Corporate clients*	30	9	1
% of corporate clients*	75%	23%	3%

* Includes publicly disclosed not immaterial investment banking services or issues of financial instruments where Norne Securities AS has been lead manager or co-lead manager, and market making clients during the 12 months prior to the overview date.

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