

## Three AIM-listed Clean Technology Companies to Watch

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The fight against climate change has shot to the top of many governments, investors, and businesses agendas as goals move ever closer. We explore three companies listed on London's AIM that are at the forefront of developing cutting edge technologies with sustainability and improving the planet at the heart of their business models.

### Paris Climate Change Goals

In order to meet the Paris Climate change goals on global warming, both individuals and business must dramatically reduce their carbon emissions. This will have to be achieved by both changing existing business models and introducing new technologies. The Paris Agreement set a target of limiting global warming to 1.5 degrees when compared to pre-industrial revolution levels. Currently, global average temperatures are around 1 degrees warmer since pre-industrial levels and some forecasts see this increasing to levels that will have dramatic implications for the planet.

### Carbon Emissions

Reducing carbon dioxide emissions are widely considered by scientific community as the most effective way of reaching Paris targets. However, it is also accepted that carbon emission will not be eradicated by 2050 so governments and businesses are working towards Net-Zero by 2050 that will reduce carbon emissions, as well as increasing carbon capture. This provides value creating, and loss saving, opportunities for businesses whose models are linked to reducing, offsetting, and neutralising carbon dioxide in our atmosphere.

### Circular Economy

The Circular Economy seeks to reduce waste of both consumers and businesses by increasing the amount of materials and resources that are reused, or decreasing the initial level of waste. A Circular Economy is the opposite of a Linear Economy where resources are used then disposed of. A Circular Economy has a multifaceted positive impact on the environment by reducing pollution and increasing biodiversity. The Ellen MacArthur Foundation say there are three principles to the Circular Economy; eliminating waste and pollution, circulate products and materials, and to regenerate nature.

## AIM-Listed Clean Technology Companies

This report explores three companies whose business models are aligned with meeting Paris climate targets, as well as enabling wider environmental benefits.

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#### EQTEC

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EQTEC is a Circular Economy specialist that is implementing their patented advanced gasification technology to help reduce municipal, industrial and agricultural waste.

#### ITM Power

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One of the world-leaders in Green Hydrogen. Green Hydrogen produces energy with zero emissions and is the cleanest form of hydrogen. However, Green Hydrogen is expensive, a challenge ITM Power is taking head on.

#### Quadrise Fuels

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Although there are great efforts to eventually move away from fossil fuels, it is not practical to expect a complete stop to their uses in the near-term. Quadrise's solutions reduce the carbon emissions of heavy fuel oil (HFO).

## EQTEC

Waste-to-energy specialist, EQTEC, has developed patented gasification technology that converts numerous forms of waste to Syngas. EQTEC recently reported a 410% increase in revenue to €9.2m, demonstrating the validity of their technology. EQTEC is enjoying burgeoning demand for their solutions with operations across Europe and the US, and is engaging in strategic partnerships with multinationals.

**EQTEC's patented advanced gasification technology** enables the reduction of waste by the gasification of feedstocks including municipal, industrial and agricultural waste. EQTEC's competitive advantage stems from their three step process.

**The first step** is gasification using the EQTEC Fluidized Bed Gasifier that creates raw syngas from processing feedstocks at 750-900 degrees. **The second step** is Hot Gas Conditioning in a thermal cracking reactor that increases the quality of the syngas. At this stage, the output could be used for heating purposes. **The third and final step** is Cold Gas Conditioning through techniques such as scrubbing and condensers. After undergoing the three step process, the resultant gas has a wide range of applications including electricity, biofuels, hydrogen and synthetic gas.

**EQTEC's business model provides multiple forms of revenue**, while ensuring efficient capital expenditure. Their gasification technology is utilised through numerous corporate structures which sees EQTEC earn revenue for the construction of plants and ongoing servicing agreements. Such servicing agreements bestow EQTEC with reoccurring accretive revenue as EQTEC establishes more plants. The model has allowed EQTEC to quickly establish a diverse base of projects. These include the Billingham waste-to-energy plant in Teeside that will convert municipal waste to Refused Derived Fuel (RDF) and has the potential to demonstrate a sea-change in waste management. In their final results, EQTEC highlighted a total of two projects reaching financial close, three projects under construction and 12 in development stages.

**2021 saw a significant jump in EQTEC's revenue with a 410% increase to €9.2m.** EQTEC has two operating segments for revenue generation; technology sales and power generation. The entirety of 2021 revenue was earned from technology sales meaning investors will be looking forward to future power generation revenue. The leap forward in revenue meant gross profit rose to €1.6m in 2021 (2020: €256K) while operating losses decreased to €3.8m (2020: €4.6m). EQTEC swapped debt for equity in 2021 and recorded a €1.4m loss on issue of equity instruments. When this is discounted from underlying operations it reveals a near halving in operating losses. The company is well funded having raised £16 million through an oversubscribed placing that was met with strong demand from institutions.

**EQTEC's waste to energy technology is the epitome of the circular economy.** Their core model is to reuse waste that may otherwise be discarded through incineration, or end up in landfill. EQTEC's output will also reduce carbon emissions by offering an alternative to fossil fuels.

Sources: Company reports, Bloomberg, Kemeny Capital

|                     |       |
|---------------------|-------|
| EPIC Code           | EQT.L |
| Market Cap          | £64m  |
| Current Share Price | 0.74p |

Correct 15/6/2022

Income statement 12 months to December 2021

|                  | €s          |
|------------------|-------------|
| Revenue          | 9,171,764   |
| Gross Profit     | 1,630,410   |
| Operating Profit | (3,841,303) |
| Pre-Tax Profit   | (4,700,429) |
| Net Profit       | (4,461,714) |

Balance Sheet 12 months as of December 2021

|                      | €s         |
|----------------------|------------|
| Non-Current Assets   | 30,780,884 |
| Current Assets       | 19,778,929 |
| Cash and Equivalents | 6,446,217  |
| Current Liabilities  | 7,122,659  |
| Total Equity         | 50,559,813 |

### Bull Factors

- » Sharp rise in revenue
- » Pipeline of new projects
- » Patented technology

### Bear Factors

- » Operating losses
- » Yet to record power sales

### ESG Characteristics

- » Circular Economy business model
- » Reduces fossil fuel use

### Top Shareholders

|              |       |
|--------------|-------|
| Altair Group | 19.0% |
| TB Amati     | 4.99% |

Sources: Company reports, Bloomberg, Kemeny Capital

## ITM Power

ITM Power creates Green Hydrogen solutions that produce and store clean energy. ITM Power investors were disappointed with the company's recent trading update that revealed considerable revenues would be pushed into 2023 while 2022FY EBITDA losses widened to £36.5m. ITM shares have given up nearly half their value 2022 YTD, but there is still much to be positive about.

### ITM Power say they are a world-leader in Green Hydrogen technology

as manufacturers of polymer electrolyte membrane (PEM) electrolyzers powered by electricity from renewable sources such as solar or wind to perform electrolysis in water. This means that the hydrogen obtained from this method produces no carbon emissions and is the cleanest form of hydrogen. Blue Hydrogen, for example, reforms natural gas and produces carbon dioxide as a by-product.

**Green Hydrogen is expensive to produce** and ITM have set their sights on reducing the costs of their PEM electrolyzers as they scale their business. In June's trading update, ITM highlighted an array of projects with plentiful opportunity to increase up-scaling efficiencies. Contract backlogs of projects currently classed as 'work in progress' rose 160% to a record 755 MW in 2022. This included 24 MW electrolyser sale to Linde Engineering for use in the production of Green Ammonia. ITM also received UK government funding for 5 MW Gigastack platform with hopes it can pave the way to future 100 MW electrolyser installations.

**ITM Power is the laying the foundations for a cleaner energy future.** By investing heavily in their technology and infrastructure now, ITM has many first mover advantages for the transition to cleaner fuels. Fuel sales totalled just £104k in the six months to end October 2021 and the recent JV with Vitol will seek to expand their network of refuelling stations to heavy vehicles. Should demand for hydrogen fuel grow with the introduction of additional vehicles, ITM Power are well placed to benefit.

**The burning debate between Electric Vehicles, or those powered by Hydrogen,** will become ever hotter as we move towards targets such as the UK's ban on the sale of fossil fuel powered vehicles by 2030. Currently, there are very few Hydrogen fuel cars on sale in the UK and the success of ITM's investment in ITM Motive will be highly dependant on wider adoption of Hydrogen vehicles. Notwithstanding the future of transportation, ITM's technology will play a part in reducing carbon emissions in an attempt to meet the 2050 Net Zero target.

**With the luxury of hindsight, ITM Power's valuation clearly got ahead of developments at the company.** However, as with many technology companies at the forefront of innovation, valuations can run away with themselves before material revenue and earnings justify early investor enthusiasm. Even after the near halving of the share price in 2022, ITM still trades at 255x their £5.5m 2022 revenue. However, sales multiples will fall sharply with £11m revenue already deferred 2023 and a strong pipeline of business. With end of year net cash at £364m, the question for investors will come down to whether they are comfortable with ITM's Enterprise Value in the region of £1bn.

Sources: Company reports, Bloomberg, Kemeny Capital

|                     |         |
|---------------------|---------|
| EPIC Code           | ITM.L   |
| Market Cap          | £1.29bn |
| Current Share Price | 210p    |

Correct 15/6/2022

Income statement 6 months to October 2021

|                  | £000s    |
|------------------|----------|
| Revenue          | 4,156    |
| Gross Profit     | (2,610)  |
| Operating Profit | (15,039) |
| Pre-Tax Profit   | (15,342) |
| Loss for Period  | (15,363) |

Balance Sheet 6 months as of October 2021

|                      | £000s    |
|----------------------|----------|
| Non-Current Assets   | 24,101   |
| Current Assets       | 197,458  |
| Cash and Equivalents | 164,235  |
| Current Liabilities  | (33,236) |
| Total Equity         | 182,290  |

### Bull Factors

- » World-leader in Green Hydrogen
- » First mover advantages
- » Receiving government backing

### Bear Factors

- » Revenue deferral
- » Highly valued

### ESG Characteristics

- » Zero emissions of Green Hydrogen

### Top Shareholders

|                     |        |
|---------------------|--------|
| Linde UK Holdings   | 16.31% |
| JCB Research        | 7.91%  |
| Hargreaves Lansdown | 5.47%  |

Sources: Company reports, Bloomberg, Kemeny Capital

## Quadrise Fuels

Quadrise Fuels represents the reality that while new clean technologies have the potential to cut green house gas emissions, the world will continue to use fossil fuels for decades to come. Quadrise Fuels is providing a solution to this reality with the application of their MSAR® & BIOMSAR™ technology that reduces the carbon emissions of heavy fuel oil (HFO).

**No matter advances in Electric and Hydrogen Vehicles, demand for fossil fuels will remain.** It is one thing to transition passenger vehicles - and even heavy goods vehicles - to renewable power sources, but a scenario that sees marine tankers powered by renewable sources on a large scale is decades away. The sheer cost of retro fitting existing fleets is unthinkable and the first lithium-battery powered tanker was first commissioned in Japan only in 2020. This is central to the Quadrise value proposition as the company enables fossil fuel powered shipping fleets to reduce their emissions while continuing to use oil-related fuel. Readers of our recent note of AQUIS-Listed SulNOx will be familiar with the opportunity in making shipping fuels cleaner.

**Quadrise are developing BIOMSAR™ oil-in-water emulsified synthetic biofuel that can reduce CO2 emissions by up to 25%.** BIOMSAR™ is produced using Quadrise's MSAR® technology to mix residual heavy oil with glycerine and water. Quadrise are able to tailor the amount of glycerine used in the process to manipulate the level of carbon emissions. Quadrise are currently working on an agreement with MSC Shipmanagement, one of the world's leading shipping companies. The agreement would see Quadrise trial their solutions on MSC ships and fuel production sites. A successful trial could be a landmark achievement for Quadrise and build a solid platform for further commercial agreements.

**Quadrise solutions have a broad range of applications** that go beyond shipping tanker fuel. A recent announcement laid out plans for testing commercial viability in a Moroccan plant. Quadrise are also engaged with Valkor Technologies in Utah to assess the commercial opportunities for MSAR® technology in heavy oil refinery techniques. A demonstration of Quadrise proving greener solutions in real world settings is the application of their solutions to diesel-powered power stations in Latin America. An idealist would argue that these diesel-powered stations should be replaced by a renewable sources of power, but the practicalities of doing so in areas rich with fossil fuels, but poor in other economic resources, means fossil fuels will long be used in power generation.

**Quadrise are still firmly in their development stage and revenue has been negligible.** However, with a robust range of projects evaluating commercial viability, it may not be too long before revenue begins to rise. Quadrise recorded £75,000 revenue in the six months to 31st December 2021 and is currently being supported by £5.6m cash reserves the company says will be enough to see them through the upcoming phase of trials. This will be feasible if operating losses sustained during 2022 remain consistent with the £4.4m operating loss in the 12 months to end June 2021 and £1.5m loss in the six months to December 2021.

Sources: Company reports, Kemeny Capital

|                     |      |
|---------------------|------|
| EPIC Code           | QF.L |
| Market Cap          | £25m |
| Current Share Price | 1.8p |

Correct 15/6/2022

Income statement 6 months to December 2021

|                       | £000s   |
|-----------------------|---------|
| Revenue               | 75      |
| Production & dev cost | (686)   |
| Operating Profit      | (1,518) |
| Loss before tax       | (1,519) |
| Net Profit            | (1,519) |

Balance Sheet 6 months as of December 2021

|                      | £000s |
|----------------------|-------|
| Non-Current Assets   | 3,341 |
| Current Assets       | 5,951 |
| Cash and Equivalents | 5,590 |
| Current Liabilities  | 259   |
| Total Equity         | 9,033 |

### Bull Factors

- » Commercial evaluation ongoing
- » Tests with major shipping players
- » Cash readily available

### Bear Factors

- » Low revenue
- » Commercial viability questions

### ESG Characteristics

- » Carbon emissions reductions

### Top Shareholders

|                       |        |
|-----------------------|--------|
| Hargreaves Lansdown   | 17.75% |
| Interactive Investors | 15.15% |
| Premier Miton         | 7.83%  |

Sources: Company reports, Bloomberg, Kemeny Capital

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