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Opinion	Buy
Upside (%)	156
Price (€)	0.65
Target Price (€)	1.67
Bloomberg Code	ALDIE FP
Market Cap (€M)	4.14
Enterprise Value (€th)	7,783
Momentum	NEGATIVE
Governance	4.7/10
Credit Risk	B7

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Conflicts of interest

Corporate broking	No
Trading in corporate shares	No
Analyst ownership	No
Advice to corporate	Yes
Research paid for by corporate	Yes
Corporate access	No
Brokerage activity at AlphaValue	No
Client of AlphaValue Research	No

Dietswell

Working on an integrated offer in new energies

PROS

- An asset-light-company with a recurring business (rig inspection and services activities) supported by higher oil prices, and an opportunity to reach a large market with the offshore wind play.
- Floating offshore wind is a 3.5-5TW mostly untapped market in which Dietswell have extensive know-how and experience.
- Strong growth at Dietswell - New Energies will reduce the group's exposure to oil prices fluctuations and lower its cyclicality.

CONS

- Client concentration and project delays can have a large impact on a small company.
- In the floating offshore wind market, Dietswell's main competitors are on average one year ahead in terms of developments.
- The increased size of future offshore wind auctions could restrain small players' access to market.

KEY DATA	12/17A	12/18A	12/19E	12/20E	12/21E
Adjusted P/E (x)	-7.41	-18.8	-8.90	-8.88	31.2
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00
EV/EBITDA(R) (x)	-16.3	ns	-26.0	8.40	5.17
Adjusted EPS (€)	-0.21	-0.05	-0.12	-0.07	0.02
Growth in EPS (%)	n/a	n/a	n/a	n/a	n/a
Dividend (€)	0.00	0.00	0.00	0.00	0.00
Sales (€th)	6,774	7,149	7,200	8,775	21,875
EBIT margin (%)	-2.55	10.7	-7.68	7.46	9.79
Attributable net profit (€th)	-1,210	-282	-774	-613	219
ROE (after tax) (%)	-31.0	-7.64	-21.9	-21.1	6.47
Gearing (%)	-1.11	25.8	57.1	72.2	34.3

Detailed financials at the end of this report

Key Ratios

		12/18A	12/19E	12/20E	12/21E
Adjusted P/E	x	-18.8	-8.90	-8.88	31.2
EV/EBITDA	x	ns	-26.0	8.40	5.17
P/Book	x	1.42	2.31	1.93	1.42
Dividend yield	%	0.00	0.00	0.00	0.00
Free Cash Flow Yield	%	-21.8	-13.4	3.95	2.01
ROE (after tax)	%	-7.64	-21.9	-21.1	6.47
ROCE	%	-2.79	-7.71	1.22	12.0
Net debt/EBITDA	x	58.3	-5.94	2.07	0.60

Consolidated P&L

		12/18A	12/19E	12/20E	12/21E
Sales	€th	7,149	7,200	8,775	21,875
EBITDA	€th	21.3	-363	927	1,318
Underlying operating profit	€th	-273	-713	542	905
Operating profit (EBIT)	€th	-250	-713	98.3	1,024
Net financial expenses	€th	-29.3	-60.6	-501	-485
Pre-tax profit before exceptional items	€th	-279	-774	-403	538
Corporate tax	€th	-2.45	0.00	-211	-320
Attributable net profit	€th	-282	-774	-613	219
Adjusted attributable net profit	€th	-282	-774	-613	219

Cashflow Statement

		12/18A	12/19E	12/20E	12/21E
Total operating cash flows	€th	82.0	-363	1,216	998
Capital expenditure	€th	-1,313	-500	-500	-400
Total investment flows	€th	-1,449	-500	-2,500	-1,400
Dividends (parent company)	€th				
New shareholders' equity	€th	1,061	0.00	2,015	2,015
Total financial flows	€th	1,743	424	666	1,537
Change in net debt position	€th	-310	-918	237	1,135
Free cash flow (pre div.)	€th	-1,260	-924	215	113

Balance Sheet

		12/18A	12/19E	12/20E	12/21E
Goodwill	€th				
Total intangible	€th	2,942	3,092	3,207	3,195
Tangible fixed assets	€th	1,136	1,136	1,136	1,136
WCR	€th	2,192	2,192	1,692	1,692
Total assets (net of short term liabilities)	€th	6,655	6,800	6,416	6,403
Ordinary shareholders' equity (group share)	€th	4,076	2,975	2,823	3,940
Provisions for pensions	€th		328	333	338
Net debt / (cash)	€th	1,239	2,158	1,920	785
Total liabilities and shareholders' equity	€th	6,655	6,800	6,416	6,403
Off B/S business guarantees given	€th	374	374	374	374
Contingent considerations	€th	263	263	263	263

Per Share Data

		12/18A	12/19E	12/20E	12/21E
Adjusted EPS (bfr gwll amort. & dil.)	€	-0.05	-0.12	-0.07	0.02
Net dividend per share	€	0.00	0.00	0.00	0.00
Free cash flow per share	€	-0.22	-0.15	0.03	0.01
Book value per share	€	0.64	0.47	0.34	0.46
Number of diluted shares (average)	Th	5,834	6,364	8,379	10,519

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Businesses & Trends

Dietswell is an engineering contractor to the oil, gas and energy sectors. It has an expertise in offshore and onshore drilling, with a presence in seven countries since 2000 and c.60 employees.

It is a flexible company with technical knowledge that can provide cost-effective solutions to its clients along the complete drilling value chain. Engineers (Solutions and Contracting divisions), located at the headquarters, assist clients in design and engineering projects; and the workforce abroad (Factorig and Services divisions) ensures rig performance and technical assistance.

As part of its diversification strategy, Dietswell is using its competencies gained in offshore activities to design and develop an offshore floater for wind turbines. This is not the first time an oil and gas contractor has moved to offshore wind (such as subsea 7) and Dietswell's long track record in offshore drilling should prove to have an edge over companies specialised in onshore wind as it has transferable skills and is used to tight capital spending.

Being an asset-light company, it managed to weather the 2014-17 oil crisis (which extended into 2018 for oil services companies) by reducing its cost base significantly (overhead costs were down 35% between 2014 and 2018), with the audit and inspection divisions keeping the company afloat while research and development was geared towards renewable energies. Management is committed to gaining exposure to the renewable industry and increase shareholders' value as it has skin in the game with a 19% stake in the company.

In this report, we successively address the oil & gas activities first, followed by the New Energies segment.



Oil & Gas activities

Dietswell has structured itself to cope with the inherent cyclicity of the exploration and production activities. This has translated into four main pillars:

1. having an asset-light structure to withstand quiet times;

2. building a reactive portfolio of talent and experts who can be allocated promptly on new projects (Services division);
3. focusing on recurring services which are more resilient to the cycle (Factorig division);
4. having a central unit of engineers to help units on the ground.

In practice this means Dietswell is focused on activities that are closer to production rather than to exploration, which are deemed less volatile in the upstream value chain:



Oil prices support drilling activity

More than the type of drilling done, what matters to Dietswell is the drilling intensity in the regions it is implemented. The company has expertise in both offshore and onshore drilling. It gives it the flexibility to perform many different tasks throughout the whole project cycle.

As a contractor focused on exploration and production, Dietswell's activities depend largely on oil companies' capital spending and drilling activity. The downturn in oil prices during 2014 and 2017 had a large impact on its order book.

The international rig count (excluding North America) seems to be a good proxy to assess Dietswell's activity in its traditional businesses. The recovery in drilling has been slower than the rebound in oil prices but it is happening (with a 50% increase since the bottom in mid-2016). The company recorded an order intake of €8.20m in H1 18 against €3.70m in 2016, with EPCI contracts for Total starting in late 2018 or the beginning of 2019 and a historically high level of Audit and Inspection activities seen in September 2018. For Dietswell, H1 18 is therefore a transition period with the low orders recorded in previous years impacting the current results. As a small company competing for contracts that can occupy a large share of the workforce, the results will be volatile, and timing will be impacted by operational constraints and delays in the advancement of the project.

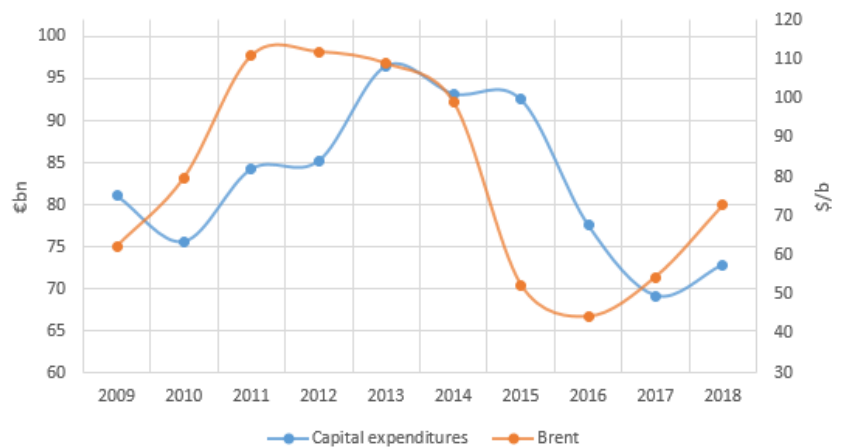
Worldwide rig count (excluding North America)



Source: Baker Hughes

There has been a recovery in the level of investments in the first half of the year. This can be seen in the earnings from larger oil services companies, such as TechnipFMC and Saipem, which reported book-to-bill ratios above 1 in H1 18. The recovery is gradual though, with oil majors staying disciplined with their capital spending. So far, managers have been giving back excess capital to shareholders, thanking them for their patience during the downturn. Extracting oil remains, nonetheless, the best way to make money for an integrated company in a bull market. The stabilisation of the barrel above \$75 is encouraging for future capital expenditures as it will lead investment decisions.

Oil prices lead capital expenditure decisions



Source: AlphaValue

Companies included: Royal Dutch Shell, Total, Eni, BP, Equinor, Repsol, OMV, Galp Energia

New Energies

Based its strong experience in the design, construction and operation of floating platforms in the offshore oil and gas industry, Dietswell has designed a semi-submersible float able to support 6-12MW of offshore wind turbines. We address its potential and market in this section.

Offshore wind a perfect fit for cheap and clean energy

The Fukushima accident, global warming, increased air pollution and rising public awareness of climate change have pushed politicians to plan ways of progressively reducing the world's dependency on fossil-fuel energy. Of all the alternatives, wind, solar and hydro have been the preferred sources of energy as their scale and design allow for utility-sized production at reasonable costs. However, building new hydro-power plants proves increasingly challenging in developed economies, onshore wind developers find it difficult to convince neighbourhood associations to accept high capacity wind turbines, while the scarcity of suitable land plots start to slow the development of major solar projects. For these reasons, offshore wind is considered as a huge opportunity, able to solve many issues other renewables are facing, while offering several Terawatts of low-cost capacity. Today, the most efficient offshore wind farms show the lowest levelised cost of energy of any energy source.

Unsubsidised levelised cost of energy comparison



Source: Lazard, LCOE 11.0, 2017

Today, around 17GW of capacity has been installed offshore, while we estimate the global technically-exploitable potential to range between 3,500 and 5,000GW. Considering that 80% of the world's total offshore wind resources is blowing above waters too deep for anchored turbines (depth above 40m), floating offshore wind turbines offer a huge, mostly-untouched potential for coastal countries.

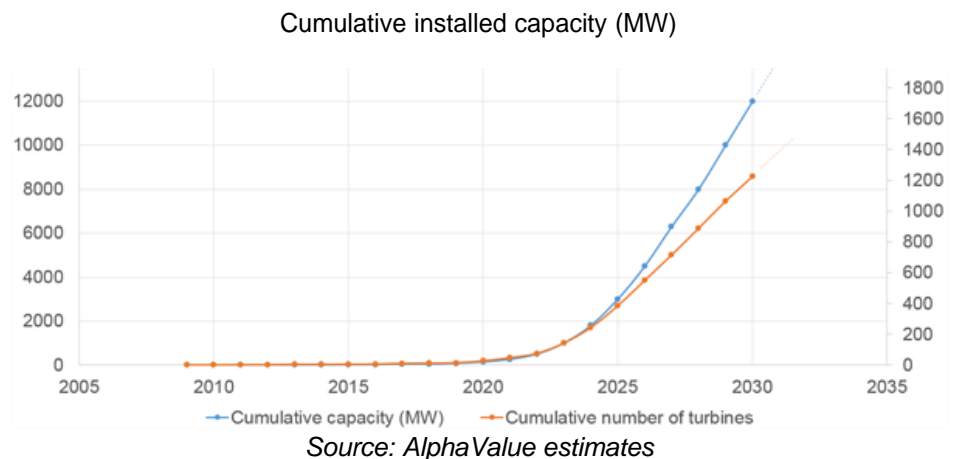
Growth is expected to be supported by a drastic cut in costs per MWh, similar to the fixed offshore industry, where costs have declined to €80-110/MWh. Cost drivers will include higher turbine capacity, higher load factors compared to fixed turbines, decreasing cost of financing and the increased scale of wind farms (more information on this topic in the Worth Knowing section). Regulation is set to be another important driver as subsidies will be needed to boost the industry during its infancy. Engineering will also rein in the launch of the sector as new standards have to be set to meet slightly narrower technical requirements inherent to mobile structures. France has already launched several pilot projects, which are expected to go live by 2020-21, and should announce up to 2GW of first commercial tenders by 2019-20.

The first pilot project – the Hywind wind farm – is owned by Equinor and located off

the Scottish coast. It has already delivered encouraging results, with load factors averaging 65% when US onshore wind farms only reached 37% in 2017 and Orsted's offshore ones 43% on average over the last 10 quarters.

Market size

As of the end of 2017, the total installed capacity was estimated at c.50MW globally, of which 30MW from the Hywind wind farm. Other pilot projects were launched in Norway (2.3MW), Portugal (2MW), Japan (14MW) and France (2MW). A further 208MW capacity is currently planned to enter into operation by 2020-21. In the mid-term, we expect the total floating wind installed capacity to reach c.3GW. We expect this number to climb to c.12GW by 2030. Our forecasts are broadly consistent with research studies (Carbontrust, 2018) as well as corporates' stated outlook (Equinor, 2017). Note that this can be viewed as conservative given some countries' stated objectives like France's 6GW target by 2030.



We expect Dietswell to be able to grasp c.8-9% of this total market. Based on this scenario, we estimate that the group will land its first contract in 2019 (one unit) and progressively ramp up its production rate to 13-14 units by 2030.

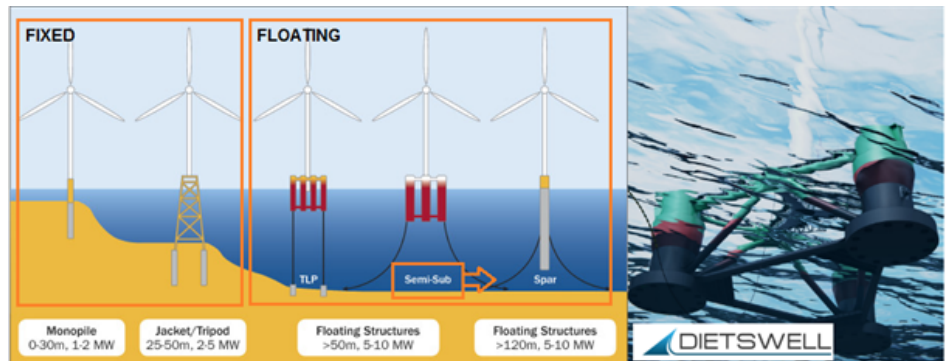
Competition

The Dietswell design is a steel semi-submersible structure with no active ballast and a centred turbine (see below). The total structure is relatively light weight (c.2,200 tons) and only needs limited maintenance due to steel's innate robustness.

Competitors include Ideol, with its ring-shaped concrete structure and, more importantly, the US-based Power Principle Inc. PPI has developed a triangular-shaped floating wind turbine foundation (WindFloat). The company is in a more advance stage as it has already been built, tested and decommissioned its first 2MW prototype between 2011 and 2016 and plans several new projects in Europe.

Competition also comes from other designs, such as tension leg platforms or TLPs (Glosten, DBD Systems, Iberdrola) or simple spar buoys like the ones used at the Hywind wind farm in Scotland (Equinor). However, even if some markets such as Japan or Norway have waters that are deep enough to install spar buoys, semi-submersible structures should prevail in most instances as their flexibility allows them to adapt to almost any site's characteristics.

Dietswell's design vs competitors ones



Other end markets

The oil services industry could be another driver for floating wind turbines as small-to-medium size floating wind farms could be used both economically and environmentally to power offshore oil & gas drilling and production installations. Depending on wind speeds, these kinds of installations could result in a wind energy penetration of 30-40%, the rest of the supply being provided by gas turbines, which are commonly used to power this kind of platform. Besides lower gas consumption, savings can be made at the emission tax level. A 2012 study prepared by research centre NOWITECH found that 20MW wind capacity could save 54,000 tons of CO2 and 24mcm of gas, which at today's prices could save c.€11m annually.

The first project of this kind currently intended consists of 11 floating turbines aimed at providing c.35% of the power needed by Equinor's Gullfaks and Snorre oilfields.

The size of the market is particularly hard to call, given the variety of influencing factors (distance from shore, winds speeds, technology costs, gas prices, emission taxes). For now, the market is still in its infancy and the first engineering contracts are likely to emerge from 2019. In this upcoming market, Dietswell is already active and landed a contract for a preliminary study in H2 18.

Divisional Breakdown Of Revenues

Sector	12/18A	12/19E	12/20E	12/21E	Change 19E/18		Change 20E/19E		
					€th	of % total	€th	of % total	
Total sales	7,149	7,200	8,775	21,875	51	100%	1,575	100%	
Services	Engineering-Heavy Constr.	2,722	2,700	2,700	3,500	-22	-43%	0	0%
Factorig	Engineering-Heavy Constr.	4,212	4,500	4,750	5,000	288	565%	250	16%
Solutions	Engineering-Heavy Constr.	215	0.00	100	500	-215	-422%	100	6%
Contracting	Engineering-Heavy Constr.	0.00	0.00	100	500	0	0%	100	6%
New Energies	Engineering-Heavy Constr.	0.00 ⁽¹⁾	0.00	1,125	12,375	0	0%	1,125	71%
Other									

1. For information purposes, we report the revenues from the New Energies SPV as a whole. See Funding section for more details on our assumptions.

Key Exposures

	Revenues	Costs	Equity
Dollar	0.0%	0.0%	0.0%
Emerging currencies	5.0%	5.0%	0.0%
Long-term global warming	0.0%	0.0%	0.0%

Sales By Geography

Other	100.0%
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We address exposures (eg. how much of the turnover is exposed to the \$) rather than sensitivities (say, how much a 5% move in the \$ affects the bottom line). This is to make comparisons easier and provides useful tools when extracting relevant data.

Actually, the subject is rather complex on the ground. The default position is one of an investor managing in €. An investor in £ will obviously not react to a £ based stock trading partly in € as would a € based investor. In addition, certain circumstances can prove difficult to unravel such as for eg. a € based investor confronted to a Swiss company reporting in \$ but with a quote in CHF... Sales exposure is probably straightforward but one has to be careful with deep cyclicals. Costs exposure is a bit less easy to determine (we do not allow for hedges as they can only be postponing the day of reckoning). How much of the equity is exposed to a given subject is rarely straightforward but can be quite telling. In addition, subjects are frequently intertwined. A \$ exposure may encompass all revenues in \$ pegged currencies and an emerging currency exposure is likely to include \$ pegged currencies as well.

Exposure to global warming issues is frequently indirect and may require to stretch a bit imagination.

Money Making

Dietswell has two divisions which ensure rather stable cash flows (Factorig and Services), another two divisions the activities of which are more lumpy and dependent on exploration and production spending (Solutions and Contracting), and one wild card division with high growth potential (New Energies).

Oil & Gas Services

The company has a vast network of qualified manpower that it can send to production sites around the world on an individual basis or as a multidisciplinary team. Customers are exploration and production companies and larger oil and gas services companies. Typically, the customer will contract the workforce for a specific mission, but Dietswell also has several multi-year agreements with long-standing clients.

Providing a technical workforce is a high volume, low margin business. Contractual prices for assistance and temporary manpower are competitive in the oil and gas industry and this is a fragmented market with low barriers to entry. EBIT margins can reach 6-7%, higher than generalists in workforce solutions (Adecco has an EBIT margin of c.4.5%), reflecting the specialised talents Dietswell can provide.

Dietswell uses its network and technical knowledge to allocate its team around the various projects in which it is working on. A higher number of contracts allows for optimisation of manpower and usually improves margins when talents are in demand. The strength of Dietswell in this activity is its ability to recruit talent on a timely basis (and avoiding costly inter-contracts).

We expect the trend in manpower outsourcing to continue in oil and gas, especially on operational activities, due to the nature of exploration and production which requires specific competencies at each step of the project.

Factorig

Dietswell is an independent third-party rig and QHSE (quality, health, system, and environment) auditor. It assists oil and gas contractors in reducing their operational risks. Works include full condition surveys once the rig has been delivered to the client, rig inspection during operation, inspection of new equipment prior to its integration, etc. The Factorig division is based in Abu Dhabi and has a strong presence in the Middle East.

The company can recertify blow-out preventers (BOP). It has both ISO9001 and API Q2 certifications, which are crucial quality management system requirements for contractors. A BOP is some safety equipment which is used to hold well pressure and prevent uncontrolled flow.

Inspecting and auditing a rig is a recurring business that occurs throughout the whole lifespan of the asset:



In addition to rig inspection, the company can now recertify BOPs from Shenkai.

The BOP recertification market is a good addition to the Factorig division. Safety regulations have increased after the Macondo oil spill in 2010, at which the BOP failed, with BOPs recertification occurring every five years. BOP manufacturers are strongly incentivised to stick to safety requirements. As a reminder, Cameron International Corp, the BOP manufacturer for Macondo well, agreed to a \$250m settlement with BP in 2011.

Good execution from Dietswell on the Shenkai BOPs could give them access to partnerships with additional BOP manufacturers.

The Factorig division operates in a niche market where EBIT margins can be above 20%, with customers that are not likely to switch from one contractor to another. The recurrence of the activity associated with customer retention gives audit and inspection a singular and attractive feature within oil services.

Solutions & Contracting

Dietswell is at heart a firm of engineers and has a good track record, with projects realised for various contractors (mainly European and Middle Eastern companies).

Contracting: Dietswell provides project management and services throughout the whole lifespan of a rig. It is focused mainly on complex drilling operations, using the expertise of its other divisions to offer an integrated solution to its clients.

Solutions: This is Dietswell's engineering unit. The company has been involved in many projects, including the designs of rigs that required ad hoc specifications and studies on modular cluster rigs. It also has expertise in offshore with designs done on jack-up rigs, tender-assisted drilling barges and swamp barges. The Solutions division also offers technical support to the Factorig and Services divisions.

Its size makes it less vulnerable to bigger engineering firms (such as TechnipFMC and Saipem) as it will compete for smaller projects and will typically serve those contractors when it can bring its expertise (such as rig reactivation services).

While, business will be more volatile than the Services and Factorig divisions (engineering activities depend on exploration and production capital spending), margins will also be higher (c.25%).

There is also hidden value with having the engineering division located at the headquarters and providing technical support to the units abroad. For instance, Dietswell has done an engineering study to upgrade a rig for Perenco that required a BOP system. Dietswell can participate in these types of projects thanks to its API

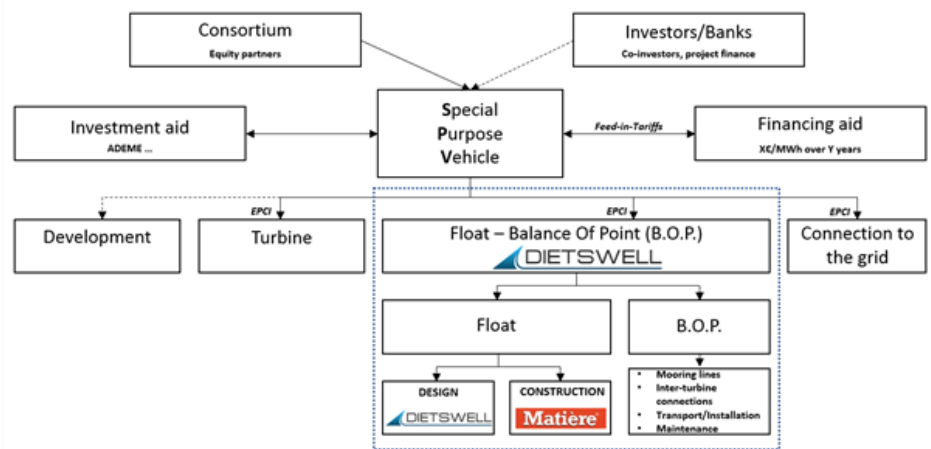
Q2 certification and the engineering branch.

**New Energies
Business model**

Dietswell will be contracted by developers. The scope of Dietswell's activities can vary according to developers' needs. Dietswell's responsibilities can include:

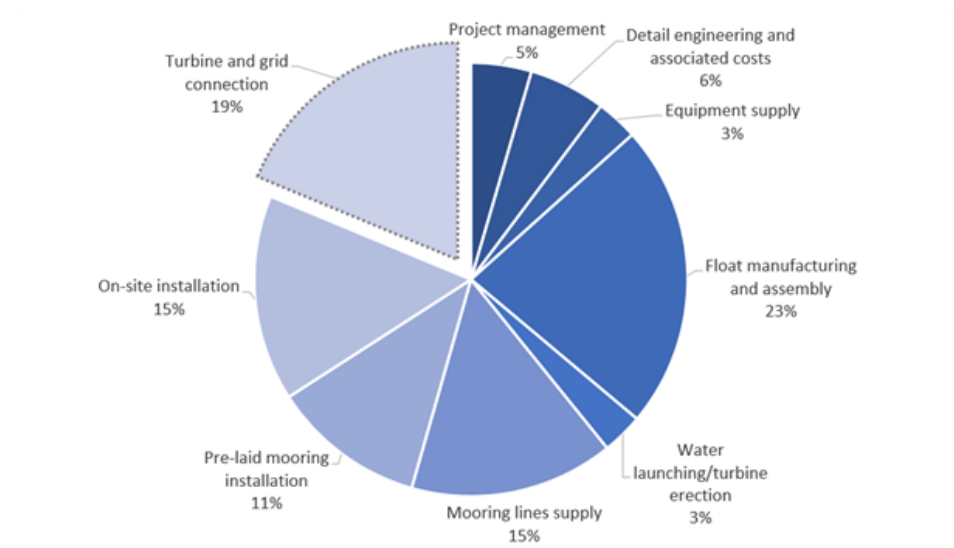
1. project management (project follow-up including construction and installation);
2. detailed engineering (engineering, licensing, software, certification);
3. supply of equipment (ballasts, crane, chain connection, power generation for installation);
4. on-site installation (towing, mobilisation, connection to pre-laid moorings, supervision);
5. supply of mooring lines (chains, anchors, buoys, shackles);
6. water launching and provision of the yard during the erection of the turbine.

As regards the construction of the float, two solutions are being envisioned. The first one is a joint venture where Dietswell doesn't earn fees on the construction contract. The second one, where Dietswell handles the entire process (float and BOP) under the form of an EPCI contract. Below is a chart summarising the overall structure:



The total cost of an installed unit should range between €30m and €35m for an order of one unit only, while prices for bigger orders are expected to be reduced by c.€3-4m. Dietswell could be contracted either on an EPC or EPCI basis. Typical EPC contracts would only include the design, engineering, supervision and licensing revenue and their value should range between €8m and €10m. An EPCI contract would include installation works and be valued at c.€20-25m, the only revenue not included being the turbine itself as well as the cost of connecting the farm to the grid.

Total cost breakdown, for one unit



Source: Dietswell, AlphaValue estimates

Dietswell will also bid for the maintenance of its floaters throughout their expected lifetime (20-25 years). These contracts could be part of the initial contract or attributed separately. We have valued these revenues at c.€200k per unit per year and have chosen to include maintenance revenues for all floaters sold as we deem it likely that the company would win these contracts given its accumulated know-how in the maintenance offshore platform.

Like in any nascent, high potential market, we expect margins to remain relatively low during the first years as players try to gain market share. We forecast a 10% EBITDA margin and a 6% net profit margin. Based on a c.€10m price, we therefore estimate an EBITDA of €1m per unit ordered. For future, higher-capacity turbines (12MW+), we estimate a slight increase in prices, translating higher costs partly offset by efficiencies, economies of scale and increased competition. We therefore forecast €7.5m, €10m and €12.5m revenue for a 4MW, 6MW and 12MW turbines, respectively.

As for contracts signed with oil majors, we expect similar margins, i.e. 8-10%, although it is likely that some of the first contracts will first be oriented towards engineering as specific solutions will have to be crafted to fit every client's needs (on-board storage solution, power generators). We expect the first orders to be mainly one-time contracts as oil groups will want to test the solution on a smaller scale before filing bigger orders. We have taken a conservative stance and decided not to include any revenue from this market, besides the €150k already landed in 2018.

Capex is expected to remain modest given the lightness of the business model. We forecast small intangible investments, mostly software licences in the vicinity of c.€12k per year and per employee. As for the number of staff, we use Dietswell's estimates of five employees per unit ordered, for pilot and small wind farms, and fewer employees per turbine for bigger orders as their scale allow for some cost reduction.

Risks

The main risk comes from timing and competition as Dietswell's main competitors are on average one year ahead in terms of developments. Naval Energie has already secured a contract with EOLFI, for the construction of a pilot project consisting of four floating support structures, to be delivered by 2021. Principle Power Inc. has already tested and decommissioned a full-scale 2MW prototype of its WindFloat design. Ideol's first demonstration (Floatgen) became operational in September 2018 and has already been delivering power to the grid since then.

Another disadvantage could be Dietswell's own size as the company's current revenue is lower than the price of a single floater. Therefore, the development of the New Energies division will be limited to pilot and small-scale wind farms during the first years and bigger developers are likely to prefer to wait to see the first unit in operation before placing large orders.

Lastly, the financing of the new entity is likely to require the participation of a partner. The best fit would be to find an industrial partner with extensive experience in maritime construction works, able to install the floaters at their final location. Finding an ideal partner ready to share risk and engage into a minority participation will be key.

Divisional EBIT

	12/18A	12/19E	12/20E	12/21E	Change 19E/18		Change 20E/19E	
					€th	of % total	€th	of % total
Total	764	-553	655	2,143	-1,317	100%	1,208	100%
Factorig	605	585	570	700	-20	2%	-15	-1%
Solutions	205	0.00	5.00	25.0	-205	16%	5	0%
Contracting	0.00	0.00	100	200	0	0%	100	8%
Services	-45.9	27.0	27.0	140	73	-6%	0	0%
New Energies	⁽²⁾	-1,165	-47.5	1,078	-1,165	88%	1,118	93%
Other/cancellations								

2. Net attributable profit to Dietswell is reported in earnings from joint ventures. For information purposes, we report the EBIT from the New Energies SPV as a whole. See Funding section for more details on our assumptions.

Divisional EBIT margin

	12/18A	12/19E	12/20E	12/21E
Total	10.7%	-7.68%	7.46%	9.79%
Factorig	14.4%	13.0%	12.0%	14.0%
Solutions	95.3%		5.00%	5.00%
Contracting			100%	40.0%
Services	-1.69%	1.00%	1.00%	4.00%
New Energies			-4.22%	8.71%

Valuation

Oil & Gas

After reaching a low point in Q4 17 and Q1 18, we expect activity to continue recovering in Services and Factorig and go back to pre-crisis levels in 2020 for two main reasons:

1. stronger oil prices will support drilling activity to restart quickly, on which Dietswell can bring its expertise, such as in rig reactivation. This acceleration in drilling activities shows up in Dietswell's backlog. It stood at €9.4m in August 2018, a €1.1m increase against June 2018;
2. workforce reductions from the majors during the downturn should boost manpower outsourcing in operational activities.

We also expect the Solutions and Contracting divisions to pick up again, although at a slower pace than Services and Factorig. Dietswell has expertise that can be applied early in the cycle, such as technical refurbishment, yet offshore drilling remains subdued and it will take more time to generate contracts.

The DCF is based on a 4% EBITDA growth for the oil and gas activities.

New Energies

We have decided to isolate the New Energies division and show the sum of its discounted cash flows in 2019. This gives more clarity on the contributions of both the Oil and Gas and New Energies divisions and allows for a more suitable modelling of start-up projects. The offshore wind project is also more risky than traditional oil and gas projects and should be valued as such, therefore we use a 12% cost of debt and a relatively conservative 10% WACC. We have considered a first pilot project of a 4MW design in 2019, followed by an order of six 6MW units in 2020. The 2022+ designs should all be 12MW turbines. We estimate the revenue for the three designs to be €7.5m, €10m and €12m, respectively. We have also assumed maintenance revenues of €200k per year per float, at similar EBITDA margins, i.e. 10%. For capex estimates, we have used an average capex per employee per year of €12k, corresponding to software licences mainly. From 2031 onwards, we have applied a conservative long-term EBITDA and capex growth rate of 2%.

Key DCF metrics for selected years

k€	FY19	FY22	FY24	FY26	FY28	FY30
Units ordered	1	4	8	13	14	14
Units delivered	0	2	6	7	8	8
Staff number	8	26	50	88	110	132
Revenue	1 125	25 100	80 550	102 950	118 450	121 650
EBITDA	113	2 510	8 055	10 295	11 845	12 165
Capex	-96	-312	-600	-1056	-1320	-1584
FCF	17	2 089	5 339	6 451	7 272	7 232
Discounted FCF	15	1 427	3 013	3 009	2 803	2 304

Sum of the parts

Our sum of the parts valuation is based on multiples from comparable companies in each business line. Although Dietswell operates in oil and gas services, two

divisions are support services functions and should be valued as such.

For the Services and Factorig divisions, we have applied multiples of 8x and 13x to 2019 EBIT, in line with its peers specialised in human resources and support services (Randstad, Adecco) and in inspection, testing and certification (Bureau Veritas, SGS, Eurofins Scientific), with a discount on the cyclical of the oil and gas sector.

For the Contracting and Services divisions, we have applied a multiple of 5x to 2020 EBIT, using a discount to engineering companies operating in the energy field (Elecnor, TechnipFMC) in order to reflect the risks inherent to a smaller company.

For the NAV of the New Energies division, we value the floating offshore wind division using a DCF method as applying a multiple on EBIT or EBITDA would require to arbitrary select a reference year and therefore be dependent on a still uncertain timing. As a reminder, we use a 12% cost of debt and a relatively conservative 10% WACC.

Valuation Summary

Benchmarks		Values (€)	Upside	Weight
DCF		2.75	323%	35%
NAV/SOTP per share		2.98	359%	20%
EV/Ebitda	Peers	0.29	-55%	20%
P/E	Peers	0.33	-50%	10%
Dividend Yield	Peers	0.00	-100%	10%
P/Book	Peers	0.33	-50%	5%
Target Price		1.67	156%	

Comparison based valuation

Computed on 18 month forecasts	P/E (x)	Ev/Ebitda (x)	P/Book (x)	Yield(%)
Peers ratios	11.0	4.66	0.81	2.82
Dietswell's ratios	-14.7	7.74	1.72	0.00
Premium	0.00%	0.00%	0.00%	0.00%
Default comparison based valuation (€)	0.33	0.29	0.33	0.00
TechnipFMC	9.57	4.18	0.76	3.63
Saipem	14.9	4.82	0.83	1.31
Elecnor	10.5	6.90	1.34	3.33
Ecoslops	ns	25.8	1.99	0.47

DCF Valuation Per Share

WACC	%	9.33	Avg net debt (cash) at book value	€th	2,039
PV of cashflow FY1-FY11	€th	27,913	Provisions	€th	411
FY11CF	€th	632	Unrecognised actuarial losses (gains)	€th	0.00
Normalised long-term growth"g"	%	2.00	Financial assets at market price	€th	0.00
ESG weighted "g"	%	1.80	Minorities interests (fair value)	€th	0.00
Terminal value	€th	8,386	Equity value	€th	28,898
PV terminal value	€th	3,435	Number of shares	Th	10,519
<i>PV terminal value in % of total value</i>	%	11.0	Implied equity value per share	€	2.75
Total PV	€th	31,348			

Assessing The Cost Of Capital

Synthetic default risk free rate	%	3.50	Company debt spread	bp	500
Target equity risk premium	%	5.00	Marginal Company cost of debt	%	8.50
Tax advantage of debt finance (normalised)	%	30.0	Company beta (leveraged)	x	1.38
Average debt maturity	Year	5	Company gearing at market value	%	39.6
Sector asset beta	x	1.13	Company market gearing	%	28.4
Debt beta	x	1.00	Required return on geared equity	%	10.4
Market capitalisation	€th	5,446	Cost of debt	%	5.95
Net debt (cash) at book value	€th	2,158	Cost of ungeared equity	%	9.16
Net debt (cash) at market value	€th	1,682	WACC	%	9.33

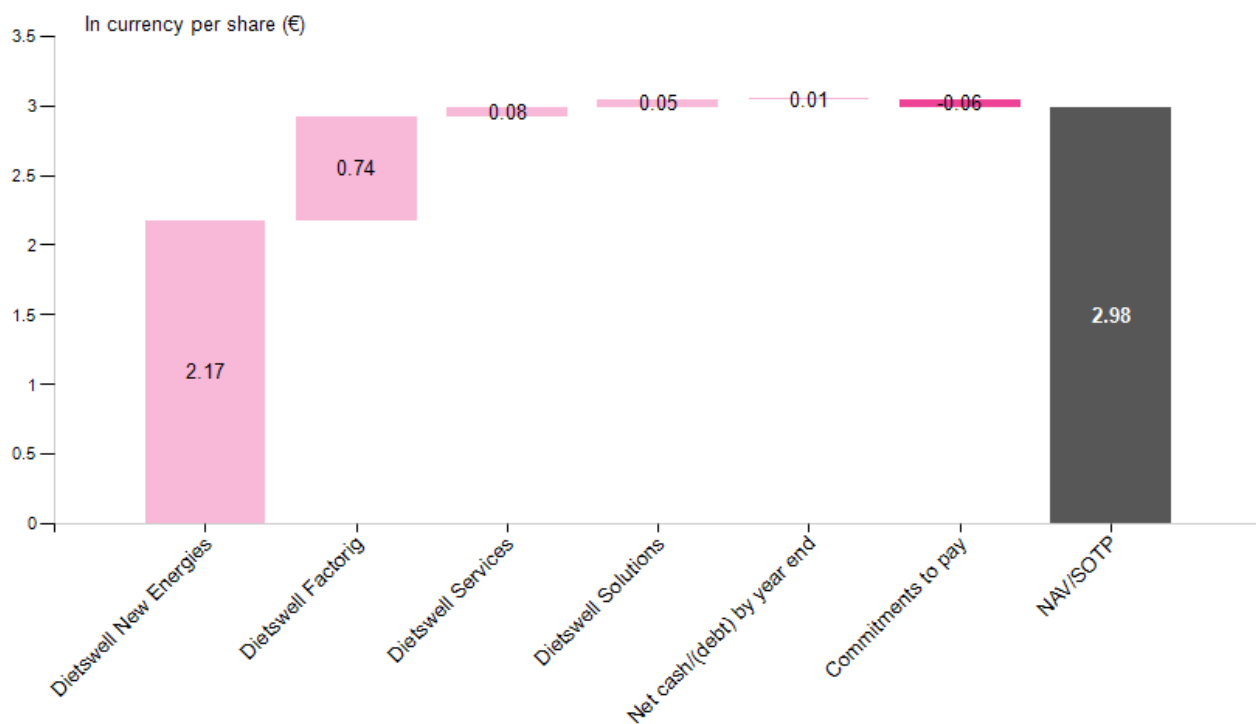
DCF Calculation

		12/18A	12/19E	12/20E	12/21E	Growth	12/22E	12/29E
Sales	€th	7,149	7,200	8,775	21,875	4.00%	22,750	29,937
EBITDA	€th	21.3	-363	927	1,318	4.00%	1,370	1,803
<i>EBITDA Margin</i>	%	0.30	-5.05	10.6	6.02		6.02	6.02
Change in WCR	€th	-144	0.00	500	0.00	4.00%	0.00	0.00
Total operating cash flows (pre tax)	€th	84.5	-363	1,427	1,318		1,370	1,803
Corporate tax	€th	-2.45	0.00	-211	-320	4.00%	-332	-437
Net tax shield	€th	-8.78	-18.2	-150	-146	4.00%	-151	-199
Capital expenditure	€th	-1,313	-500	-500	-400	4.00%	-416	-547
<i>Capex/Sales</i>	%	-18.4	-6.94	-5.70	-1.83		-1.83	-1.83
Pre financing costs FCF (for DCF purposes)	€th	-1,240	-881	566	453		471	619
Various add backs (incl. R&D, etc.) for DCF purposes	€th			26,877				
Free cash flow adjusted	€th	-1,240	-881	27,443	453		471	619
Discounted free cash flows	€th	-1,240	-881	25,100	379		360	254
Invested capital	€	6.27	6.42	6.04	6.02		6.26	8.24

NAV/SOTP Calculation

	% owned	Valuation technique	Multiple used	Valuation at 100% (€th)	Stake valuation (€th)	In currency per share (€)	% of gross assets
Dietswell New Energies	51.0%	DCF		44,800	22,848	2.17	71.5%
Dietswell Factorig	100%	EV/EBIT	13	7,800	7,800	0.74	24.4%
Dietswell Services	100%	EV/EBIT	8	800	800	0.08	2.50%
Dietswell Solutions	100%	EV/EBIT	5	500	500	0.05	1.57%
Dietswell Contracting	100%	EV/EBIT	5	0.00	0.00	0.00	0.00%
Other							
Total gross assets					31,948	3.04	100%
Net cash/(debt) by year end					79.8 ⁽¹⁾	0.01	0.25%
Commitments to pay					-637 ⁽²⁾	-0.06	-2.00%
Commitments received							
NAV/SOTP					31,390	2.98	98.3%
Number of shares net of treasury shares - year end (Th)					10,519		
NAV/SOTP per share (€)						2.98	
Current discount to NAV/SOTP (%)						78.2	

1. 2019 net debt adjusted by the ownership in the New Energies company
2. Off-balance sheet agreements



Debt

On 31/12/2018, Dietswell posted a net debt of €1.2m, with €490k being an interest-free loan from BPIfrance (Banque publique d'investissement) to finance offshore floaters. In Q4 18, the company issued €1m of convertible debt to pre-fund the EOLFLOAT project from ADEME. The remainder is credit cash facilities (€80k) and a loan from CIC (€150k) due in H1 20.

New Energies

More complex is the funding of the New Energies growth plans as they obviously hinge on the choice of business model. We assumed that Dietswell remains in control (full consolidation) of the New Energies ventures and would seek funds by diluting its ownership of an ad hoc SPV through recaps in cash or in kind paying for the initial capex. This dilution is assumed to be such that Dietswell will have received in all c.€25m over an unspecified period of time.

For the Trussfloat business to gain some buoyancy, it will need to spend c. €5m in 2019, which we allow for as extra equity in our funds flows statement coming from minorities. Obviously, the negatives (sharing earnings of the SPV) will not be visible in early P&Ls.

We eventually based our valuation (see ad hoc section) on a scenario where Dietswell shares the New Energies division's ownership with an industrial partner, keeping a 50% + 1 share in the entity. We chose this approach as we see a partnership (industrial first and financial later on) as key for the future growth of the new floating wind business. The industrial steps of a partnership will back the technical know-how in the field of maritime works (installation, moorings...). Please see Money Making section for more details on the proposed structure.

Detailed financials at the end of this report

Funding - Liquidity

		12/18A	12/19E	12/20E	12/21E
EBITDA	€th	21.3	-363	927	1,318
Funds from operations (FFO)	€th	196	-418	222	520
Ordinary shareholders' equity	€th	4,076	2,975	2,823	3,940
Gross debt	€th	2,358	2,838	1,982	1,982
+ Gross Cash	€th	1,119	680	62.2	1,197
= Net debt / (cash)	€th	1,239⁽³⁾	2,158	1,920	785
Gearing (at book value)	%	25.8	57.1	72.2	34.3
Adj. Net debt/EBITDA(R)	x	58.3	-5.94	2.07	0.60
Adjusted Gross Debt/EBITDA(R)	x	115	-8.94	2.59	1.82
Adj. gross debt/(Adj. gross debt+Equity)	%	37.5	52.2	45.9	37.9
Ebit cover	x	-9.34	-13.0	1.10	1.89
FFO/Gross Debt	%	8.04	-12.9	9.27	21.6
FFO/Net debt	%	15.8	-19.4	11.6	66.2
FCF/Adj. gross debt (%)	%	-51.6	-28.4	8.98	4.69

3. Note that we consider the advance from ADEME (c.€0.8m) as debt as we expect a favourable outcome from the project.

Worth Knowing

Reducing the cost per MWh

To deploy fully, a floating wind turbine will have to reduce its cost per MWh to below €100, a target deemed by many as possible by 2025-30. Equinor, owner of the Hywind farm, has already stated its objectives of achieving a €40-60/MWh cost of energy by 2030. Cost savings will stem from the increase in turbine capacity as higher capacity allows for fewer installations, lower maintenance and operation costs. In ten years, the size of turbines has already more than doubled from 3.5MW to 9MW, while 12MW turbines are just around the corner (GE's Haliade-X). First onshore tests will start in 2019 while first offshore operations will begin by 2021. We expect the floating wind industry to be the first to adopt these higher turbine capacities.

Another big driver will be wind speeds and steadiness. The further from the shore, the stronger and more stable the winds generally are, giving floating wind farms a bid advantage. Moreover, the relation between wind speed and energy output is cubed, meaning that a 26% increase in wind speeds will double the total output, thus decreasing the costs per MWh by the same amount.

Besides these basic principles, floating wind turbines allow for lower installation and maintenance costs as turbines can be constructed and checked on the quayside and then pulled into position easily and affordably.

While many of these cost drivers are outside Dietswell's control, its unique and scalable design will allow it to take advantage of the use of higher turbine capacity. According to Dietswell's estimates, doubling the turbine capacity from 6MW to 12MW will only result in a 35-40% increase in costs. It is likely that other designs like solid steel-reinforced concrete structures will not benefit as much from this race for higher turbine capacity.

Sedlar Rig 160

As part of its efforts to refocus on value-added activities and being an asset-light company, Dietswell has been trying to sell a hydraulic rig it designed and built in 2007. The unit was heavily depreciated in 2014 and has a book value of €1.1m. Although, we remain conservative and do not take it into account in our estimate, there is value remaining in it and a sale could bring extra cash flow to the company.

Shareholders

Name	% owned	Of which % voting rights	Of which % free to float
Jean-Claude Bourdon	17.5%	33.6%	0.00%
Dominique Michel	0.11%	0.20%	0.00%
Apparent free float			82.4%

Governance & Management

Jean-Claude Bourbon is the CEO and founder of Dietswell. He has been in the drilling industry for over thirty years, working for other oil and gas services companies (Schlumberger, Forasol-Foramer). Bourdon has a 19% stake in the company.

The vice president is Dominique Michel, who has extensive knowledge of the offshore industry with over forty years of experience. He was the CEO of Doris Engineering, an oil and gas service contractor which was involved in the early days of offshore field development.

Governance score

Company (Sector)





4.7 (6.5)

Independent board
















Yes

Parameters	Company	Sector	Score	Weight
Number of board members	5	10	10/10	5.0%
Board feminization (%)	20	29	4/10	5.0%
Board domestic density (%)	100	66	0/10	5.0%
Average age of board's members	60	59	5/10	5.0%
Type of company : Small cap, not controlled			10/10	25.0%
Independent directors rate (%)	60	38	6/10	20.0%
One share, one vote			✗	5.0%
Chairman vs. Executive split			✗	5.0%
Chairman not ex executive			✗	5.0%
Full disclosure on mgt pay			✗	5.0%
Disclosure of performance anchor for bonus trigger			✗	5.0%
Compensation committee reporting to board of directors			✗	5.0%
Straightforward, clean by-laws			✗	5.0%
Governance score			4.7/10	100.0%

Management

Name	Function	Birth date	Date in	Date out	Compensation, in k€ (year)	
					Cash	Equity linked
Jean-Claude BOURDON	M  CEO	1952				
Delphine BARDELET	F  CFO					
Ophélie BELLA	F  Head of Human Resources					
Dominique MICHEL	M  Executive Officer	1936				

Board of Directors

Name	Indep.	Function	Completion of current mandate	Birth date	Date in	Date out	Fees / indemnity, in k€ (year)		Value of holding, in k€ (year)
							Cash	Equity linked	
Jean-Claude BOURDON	M   	President/Chairman of th...		1952	2000				
Dominique MICHEL	M   	Deputy Chairman		1936	2005				
Martin FERTÉ	M   	Member		1958	2015				
Vanessa GODEFROY	F   	Member		1981	2018				
Benoit VERNIZEAU	M   	Member		1969	2018				

Social

Company (Sector)

3.4 (6.2)

Quantitative metrics (67%)

Set of staff related numerical metrics available in AlphaValue proprietary modelling aimed at ranking on social/HR matters

Parameters	Score	Weight
Staffing Trend	2/10	20%
Average wage trend	9/10	35%
Share of added value taken up by staff cost	1/10	25%
Share of added value taken up by taxes	1/10	20%
Wage dispersion trend	0/10	0%
Pension bonus (0 or 1)	0	
Quantitative score	4.0/10	100%

Qualitative metrics (33%)

Set of listed qualitative criterias and for the analyst to tick

Parameters	Score	Weight
Accidents at work	0/10	25%
Human resources development	3/10	35%
Pay	0/10	20%
Job satisfaction	0/10	10%
Internal communication	10/10	10%
Qualitative score	2.1/10	100%

AlphaValue analysts tick boxes on essential components of the social/HR corporate life. Decision about ticking Yes or No is very much an assessment that combines the corporate's communication on relevant issue and the analyst's better judgment from experience.

Qualitative score

Parameters	Yes  / No 	Weight
Accidents at work		25%
Set targets for work safety on all group sites?		10.0%
Are accidents at work declining?		15.0%
Human resources development		35%
Are competences required to meet medium term targets identified?		3.5%
Is there a medium term (2 to 5 years) recruitment plan?		3.5%
Is there a training strategy tuned to the company objectives?		3.5%
Are employees trained for tomorrow's objectives?		3.5%
Can all employees have access to training?		3.5%
Has the corporate avoided large restructuring lay-offs over the last year to date?		3.5%
Have key competences stayed?		3.5%
Are managers given managerial objectives?		3.5%
If yes, are managerial results a deciding factor when assessing compensation level?		3.5%
Is mobility encouraged between operating units of the group?		3.5%
Pay		20%
Is there a compensation committee?		6.0%
Is employees' performance combining group AND individual performance?		14.0%
Job satisfaction		10%
Is there a measure of job satisfaction?		3.3%
Can anyone participate ?		3.4%
Are there action plans to prop up employees' morale?		3.3%
Internal communication		10%
Are strategy and objectives made available to every employee?		10.0%
Qualitative score	2.1/10	100.0%

Detailed financials at the end of this report

Summary Of Pension Risks

		12/18A	12/19E	12/20E	12/21E
Pension ratio	%	8.53	9.92	10.5	7.89
Ordinary shareholders' equity	€th	4,076	2,975	2,823	3,940
Total benefits provisions	€th	380	328	333	338
<i>of which funded pensions</i>	<i>€th</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>
<i>of which unfunded pensions</i>	<i>€th</i>	<i>380</i>	<i>328</i>	<i>333</i>	<i>338</i>
<i>of which benefits / health care</i>	<i>€th</i>		<i>0.00</i>	<i>0.00</i>	<i>0.00</i>
Unrecognised actuarial (gains)/losses	€th	0.00	0.00	0.00	0.00

Geographic Breakdown Of Pension Liabilities

		12/18A	12/19E	12/20E	12/21E
US exposure	%				
UK exposure	%				
Euro exposure	%	100	100		
Nordic countries	%				
Switzerland	%				
Other	%				
Total	%	100	100	0.00	0.00

Recent updates

24/01/2020

Working on an integrated offer in new energies

Change in Target Price € 1.68 vs 2.07 -18.9%

We have integrated the €3m financing line in our model. The dilution has impacted our target price (on both NAV and DCF) and assumes the progressive conversion of the bonds. Note that the financing line is flexible (at Dietswell's request) and that only €300k has been issued so far. Yet, we assume the conversion of €3m of bonds into 3.53m shares (assuming €0.85 per share), split between 2020 and 2021, as the group makes progressive use of the financing tranches. This partly replaces previous hypothesis, in which the group issued €7.5m of debt in 2020 to finance its renewables activities (now assuming €4m). All other assumptions remain the same for now.

26/11/2019

Point sur l'activité de fin d'année rassurant

Significant news

Dietswell a publié un point sur l'activité de fin d'année rassurant. Si l'environnement reste porteur dans l'éolien offshore, le groupe a également signé plusieurs contrats importants dans les secteurs pétroliers et gazier. Il semble que l'attentisme des intervenants qui a pénalisé les résultats du S1 n'a pas perduré au T4. Le groupe table désormais sur une amélioration significative de sa rentabilité.

Fact

- S'attend à une amélioration significative de sa rentabilité.
- Factorig : contrats remportés en Algérie, au Brésil et aux Emirats Arabes Unis.

Analysis

Dans les **énergies renouvelables**, le communiqué de presse évoque plusieurs contrats techniques et commerciaux relevant de l'expertise du groupe. Notons que ce dernier a déjà conçu trois unités flottantes, confirmant ses capacités dans l'éolien flottant.

L'entreprise s'attend désormais à une amélioration significative de sa rentabilité, aidée par une augmentation des retards dans le **pétrole et le gaz**. Malgré la stabilité des prix du pétrole, les opérateurs semblent adopter des positions plus dynamiques fin 2019. La division Factorig (audit de plateforme et inspection) a remporté plusieurs contrats importants en Algérie (onshore) et au Brésil (offshore). Ces éléments font suite au dernier point sur l'activité mentionnant l'activité commerciale au Brésil.

En outre, la société a signé un contrat à haute valeur ajoutée et à long terme aux Emirats arabes unis. Dietswell effectuera des travaux d'optimisation sur des

plateformes de forage complexes. Impliqué tout au long de la durée de vie d'une plateforme, Factorig dispose de l'ensemble des outils nécessaires pour mener à bien de telles opérations. Un succès conforterait la crédibilité de Dietswell et permettrait au groupe de prospecter davantage dans ce domaine.

Le groupe signale également une progression de l'activité commerciale de la division Services (assistance technique), un certain nombre d'offres étant en cours d'analyse. Enfin, il a également lancé un ensemble de programmes de formation dans le secteur des puits de forage en collaboration avec le spécialiste du QHSE Aegide International.

Impact

Recommandation inchangée.

08/11/2019

Shell acquiert un développeur français spécialisé dans les projets éoliens flottants

Significant news

Shell fait l'acquisition du développeur français spécialisé dans l'éolien flottant Eolfi. La major pétrolière anglo-néerlandaise, qui souhaite se placer du "bon côté de l'histoire", augmente ses investissements dans les énergies renouvelables. Avoir un tel acteur engagé désormais en France est une bonne nouvelle pour la chaîne d'approvisionnement dans le pays. Répondant à l'ambition du groupe de réduire de moitié son empreinte carbone nette d'ici 2050, cette acquisition est une preuve supplémentaire du potentiel de l'éolien flottant du point de vue de la transition énergétique.

Fact

Shell poursuit ses efforts en matière de transition énergétique avec l'acquisition d'Eolfi. La major nourrit de fortes ambitions dans les énergies renouvelables, s'étant fixée pour objectif de réduire de moitié son empreinte carbone nette (NCF) d'ici 2050. La NCF correspond au volume de CO₂ émis rapporté à la quantité d'énergie vendue. Bien que relative (les émissions absolues de CO₂ pourraient augmenter dans le cadre de ce régime), la NCF tient compte des émissions scope 3. Si ces dernières sont celles indirectes (émises par les utilisateurs finaux), elles englobent la grande majorité du secteur pétrolier et gazier (soit le CO₂ émis par les produits pétroliers raffinés). Shell doit choisir entre réduire progressivement ses activités pétrolières et gazières (pour diminuer ses émissions de CO₂) et investir dans les énergies renouvelables (afin d'augmenter la quantité d'énergie vendue). Il est vital, selon nous, de comprendre cette logique dans la mesure car Shell ne devrait pas réduire ses activités (lucratives) dans le pétrole et le gaz. Ainsi, les énergies renouvelables sont un moyen parfait de poursuivre cette stratégie. Le groupe prévoit d'investir de 2md€ à 3md€ par an dans sa division Energies nouvelles d'ici 2025 avec le désir de devenir la plus grande compagnie d'électricité au monde.

Cela implique de soutenir les investissements dans l'éolien flottant que les majors pétrolières et gazières semblent privilégier. Outre Shell, Equinor, BP, Eni et Total

s'engagent également dans le secteur. L'AIE a récemment estimé que les capacités mondiales dans l'éolien flottant pourraient être multipliées par 15 d'ici 2040. L'Europe joue un rôle majeur dans le développement de ce type de parcs susceptible de devenir la plus grande source d'énergie de la région. En France, cette évolution est une bonne nouvelle pour la chaîne d'approvisionnement nationale. Shell y voit "des opportunités de développement de l'éolien en mer". L'acquisition d'Eolfi apportera une expertise dans la technologie, soutenue par les ambitions affichées de Shell. Eolfi et ses partenaires développent un projet pilote d'éolien flottant en France (trois turbines) dont la mise en service est prévue pour 2022, au large de la Bretagne (Groix et Belle-Île). Les flotteurs sont semi-submersibles et conçus par Naval Energies. Les éoliennes ont une capacité de 9,5 MW et sont fabriquées par MHI Vestas.

17/10/2019 Update

Change in EPS	2019 : € -0.12 vs -0.08	ns
	2020 : € -0.15 vs -0.10	ns

We have updated our model to account for the slower growth in oil & gas. As highlighted by the trading update, the volatility in oil prices are affecting operators in their investment decisions. We therefore take a more cautious stance for 2019-20, with now a gradual recovery (2019 flat yoy / 2020 +8% yoy). Note that, for 2019, we forecast sales stemming from the Services (2019: €2.70m) and Factorig (2019: €4.50m) divisions. As engineering projects are less recurring, we forecast revenues in the Solutions and Contracting divisions receding in 2020 (€0.20m in 2020).

Change in NAV	€ 4.13 vs 4.34	-4.77%
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The NAV is impacted as we now evaluate the Contracting/Solutions divisions at €0.5m vs €2m to take into account the less predictable engineering projects.

Change in DCF	€ 3.37 vs 3.71	-9.26%
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The DCF is impacted by the slower growth expected in 2019-20 (see comments above). Our long-term assumptions remain (+4% growth).

14/10/2019

S1 : la volatilité des cours du pétrole brut pénalise les résultats

Earnings/sales releases

Si la division des énergies renouvelables continue de se développer, la volatilité des marchés pétroliers a affecté les activités pétrolières et gazières. Le chiffre d'affaires du S1 a progressé de 3% en glissement annuel, la direction insistant sur l'attentisme des opérateurs au sein du secteur. Le S2 paraît cependant mieux orienté, DIETSWELL étant parvenu au S1 à remporter plusieurs contrats pour l'inspection d'équipements de forage.

Fact

CA: 3m€ (+3% yoy)
EBITDA: -0,3m€ (+25% yoy)
Résultat net: -0,5m€ (+17% yoy)

Analysis

Pétrole & gaz

Il convient de noter que le groupe a réactivé sa filiale au Brésil et a remporté cinq contrats pour l'inspection d'équipements de forage à compter du S2. Suite à l'accord signé avec Shenkai, Dietswell a également signé ses premiers contrats pour la re-certification d'équipements de prévention des éruptions (BOP) en Allemagne et en Thaïlande et a signé un accord de partenariat au Nigeria pour la réhabilitation et la gestion de plateformes offshore.

Le communiqué évoque l'attentisme des opérateurs qui ont différé leurs campagnes et reporté leurs projets de développement au S2. Selon la direction, la reprise (des investissements dans le secteur classique du pétrole et du gaz) devrait être portée par les opérations de maintenance dans les champs vieillissant et/ou le ralentissement dans le schiste US. Nous estimons que les activités de maintenance et d'inspection d'équipements de forage devraient rester dynamiques, le nombre d'installations restant bien orienté à l'échelle mondiale. Alors que le nombre de plateformes américaines a baissé de 20%, ce dernier a progressé d'environ 20% en glissement annuel à 1 131 appareils de forage (source : Baker Hughes). Il s'agit, selon nous, d'une bonne nouvelle, confirmant que, pour résister à la baisse des prix, le secteur a ajusté ses seuils de rentabilité au cours de la dernière récession.

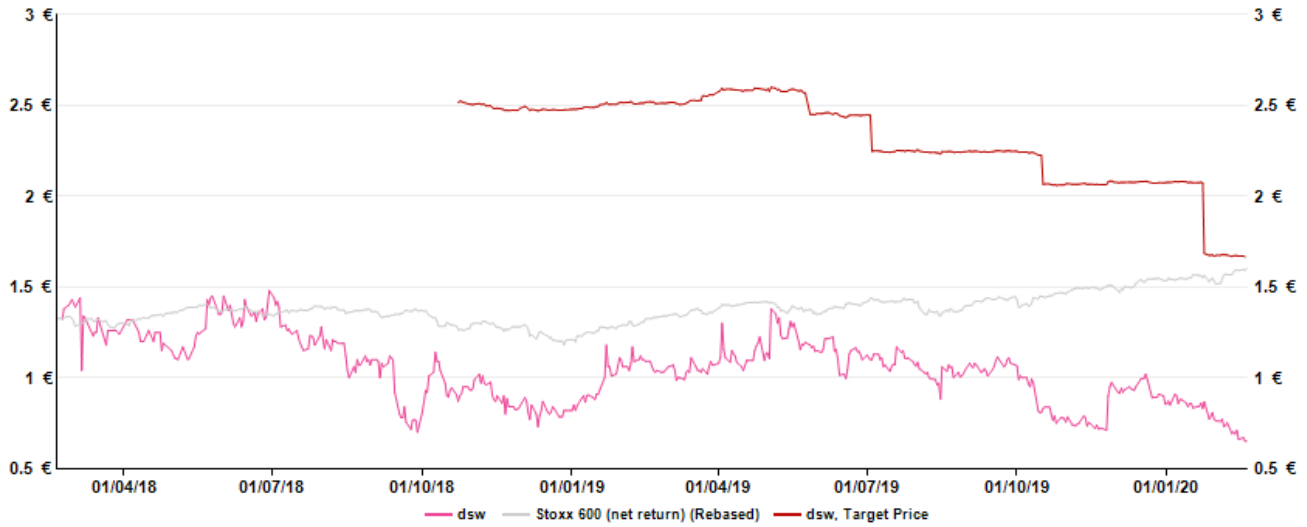
Energie renouvelables

La division des énergies renouvelables (Dolphins) continue de se développer avec le recrutement d'un directeur commercial senior au profil international. Cette décision paraît d'autant plus justifiée qu'elle devrait accélérer le développement du flotteur sur le marché mondial, plus dynamique.

Impact

Nous allons réviser nos prévisions pour tenir compte du ralentissement de la croissance dans le secteur du pétrole et du gaz.

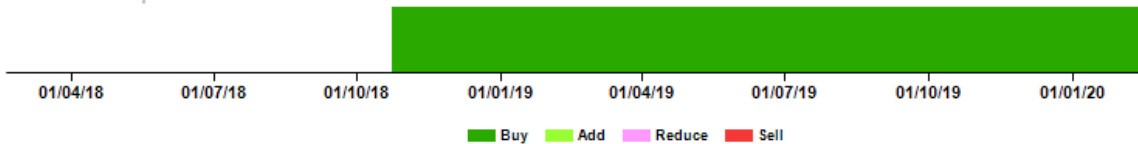
Stock Price and Target Price



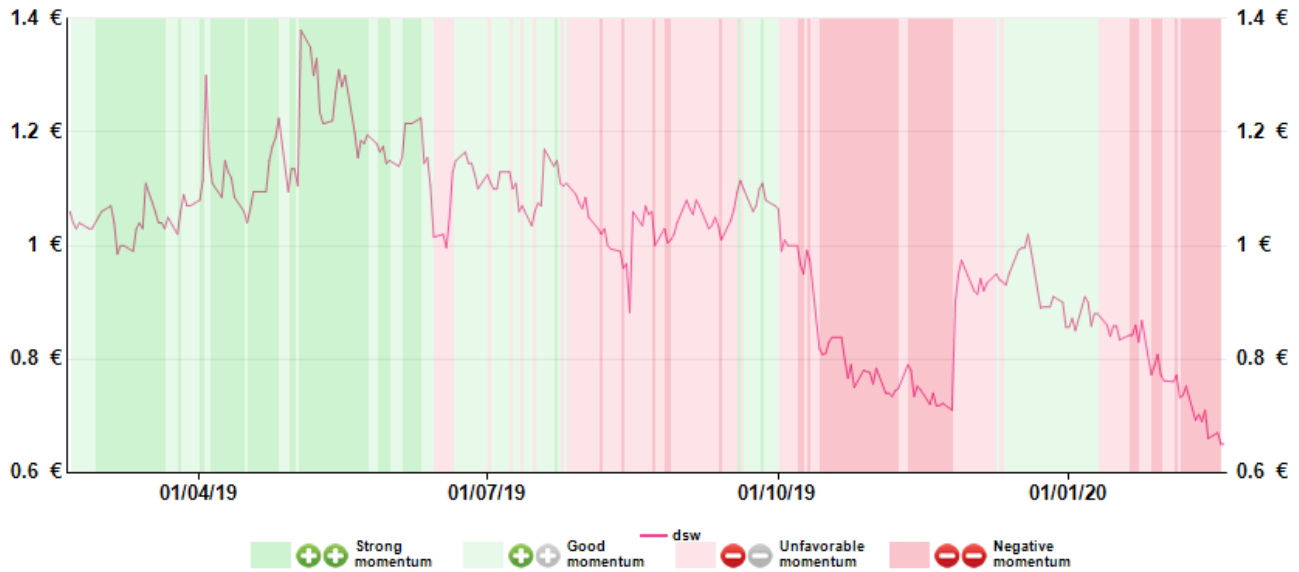
Earnings Per Share & Opinion



Dietswell : Opinion



Momentum






Momentum analysis consists in evaluating the stock market trend of a given financial instrument, based on the analysis of its trading flows.



The main indicators used in our momentum tool are simple moving averages over three time frames: short term (20 trading days), medium term (50 days) and long term (150 days). The positioning of these moving averages relative to each other gives us the direction of the flows over these time frames.


For example, if the short and medium-term moving averages are above the long-term moving average, this suggests an uptrend which will need to be confirmed. Attention is also paid to the latest stock price relative to the three moving averages (advance indicator) as well as to the trend in these three moving averages - downtrend, neutral, uptrend - which is more of a lagging indicator.

The trend indications derived from the flows through moving averages and stock prices must be confirmed against trading volumes in order to confirm the signal. This is provided by a calculation based on the average increase in volumes over ten weeks together with a buy/sell volume ratio.

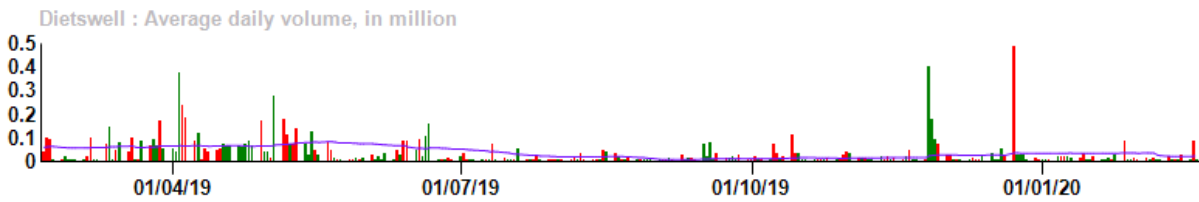
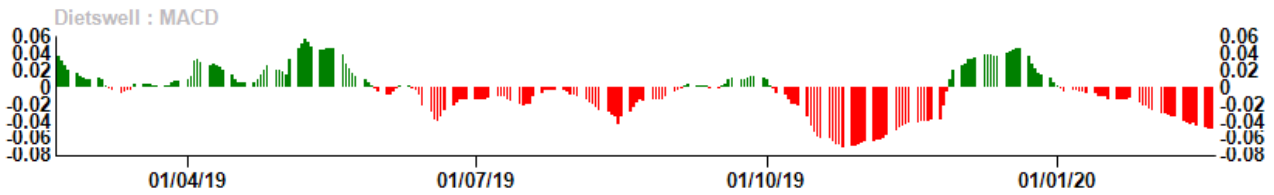
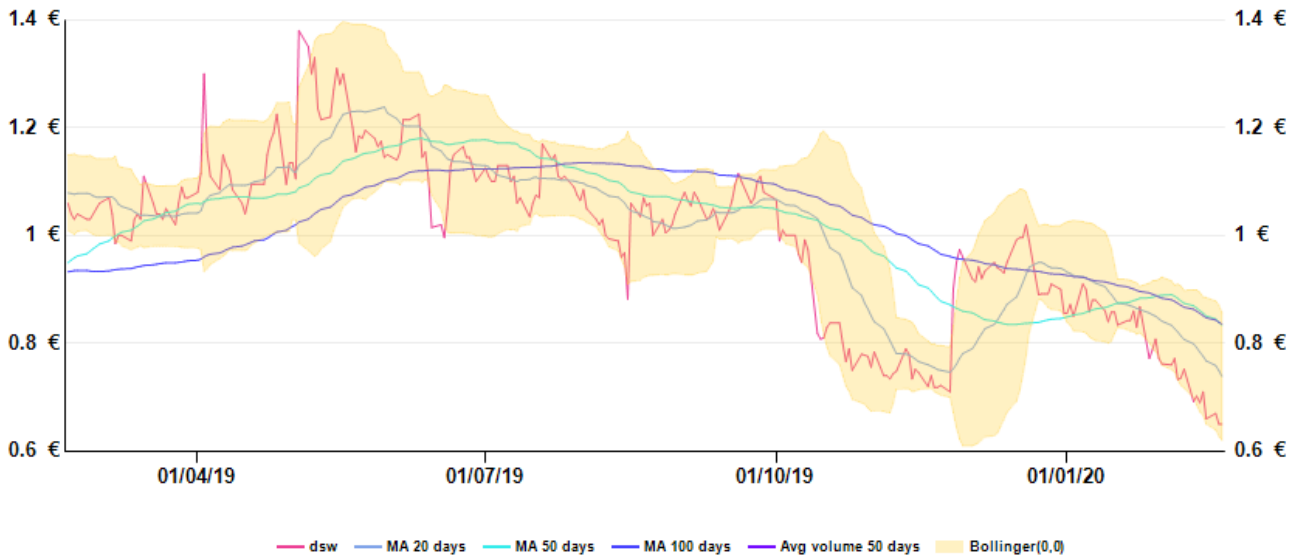
 : Strong momentum corresponding to a continuous and overall positive moving average trend confirmed by volumes

  : Relatively good momentum corresponding to a positively-oriented moving average, but offset by an overbought pattern or lack of confirmation from volumes

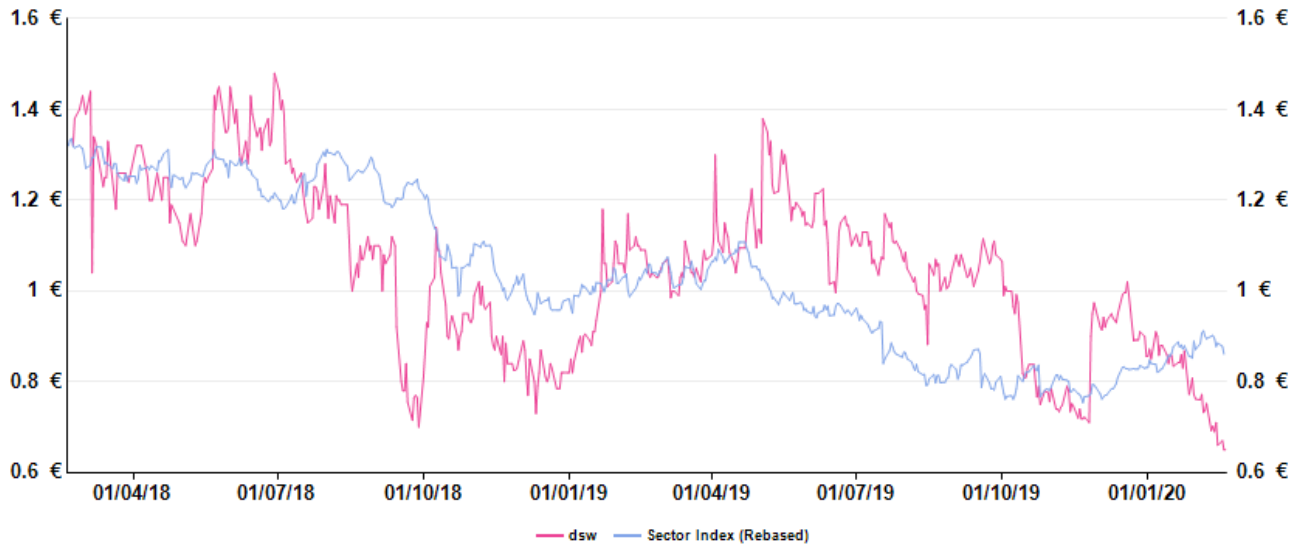
  : Relatively unfavorable momentum with a neutral or negative moving average trend, but offset by an oversold pattern or lack of confirmation from volumes

 : Strongly negative momentum corresponding to a continuous and overall negative moving average trend confirmed by volumes

Moving Average MACD & Volume



Sector Capital Goods



Detailed Financials

Valuation Key Data

		12/18A	12/19E	12/20E	12/21E
Adjusted P/E	x	-18.8	-8.90	-8.88	31.2
Reported P/E	x	-20.5	-8.90	-8.88	25.6
EV/EBITDA(R)	x	ns	-26.0	8.40	5.17
P/Book	x	1.42	2.31	1.93	1.42
Dividend yield	%	0.00	0.00	0.00	0.00
Free cash flow yield	%	-21.8	-13.4	3.95	2.01
Average stock price	€	0.91	1.08	0.65	0.65

Consolidated P&L

		12/18A	12/19E	12/20E	12/21E
Sales	€th	7,149	7,200	8,775	21,875
Sales growth	%	5.54	0.71	21.9	149
Sales per employee	€th	275	267	313	625
Organic change in sales	%				
Order book (mio currency)	m	7,900			
Purchases and external costs (incl. IT)	€th	4,072	4,522	3,497	4,065
R&D Costs	€th	1,313	500	500	400
R&D costs as % of sales	%	18.4	6.94	5.70	1.83
Staff costs	€th	-4,099	-4,352	-4,627	-5,886
Operating lease payments	€th	0.00	0.00	0.00	0.00
Cost of sales/COGS (indicative)	€th				
EBITDA	€th	21.3	-363	927	1,318
EBITDA(R)	€th	21.3	-363	927	1,318
EBITDA(R) margin	%	0.30	-5.05	10.6	6.02
EBITDA(R) per employee	€th	0.82	-13.5	33.1	37.6
Depreciation	€th				
Depreciations/Sales	%	0.00	0.00	0.00	0.00
Amortisation	€th	-295	-350	-385	-413
Underlying operating profit	€th	-273	-713	542	905
Underlying operating margin	%	-3.82	-9.90	6.18	4.14
Other income/expense (cash)	€th				
Other inc./ exp. (non cash; incl. assets revaluation)	€th	23.5	0.00	0.00	0.00
Earnings from joint venture(s)	€th	(4)		-444	119
Impairment charges/goodwill amortisation	€th	0.00	0.00	0.00	0.00
Operating profit (EBIT)	€th	-250	-713	98.3	1,024
Interest expenses	€th	-46.8	-60.6	-501	-485
of which effectively paid cash interest expenses	€th	-29.3			
Financial income	€th				
Other financial income (expense)	€th	17.5	0.00	0.00	0.00
Net financial expenses	€th	-29.3	-60.6	-501	-485
of which related to pensions	€th		-5.70	-7.02	-7.13
Pre-tax profit before exceptional items	€th	-279	-774	-403	538
Exceptional items and other (before taxes)	€th	0.00	0.00	0.00	0.00
of which cash (cost) from exceptionals	€th				
Current tax	€th	-2.45	0.00	-211	-320
Impact of tax loss carry forward	€th				
Deferred tax	€th				
Corporate tax	€th	-2.45	0.00	-211	-320
Tax rate	%	-0.88	0.00	-52.3	59.3
Net margin	%	-3.94	-10.7	-6.99	1.00
Equity associates	€th				
Actual dividends received from equity holdings	€th				
Minority interests	€th				

4. Attributable net profit from New Energies JV (see Funding section for more details)

<i>Actual dividends paid out to minorities</i>	€ th				
Income from discontinued operations	€th				
Attributable net profit	€th	-282	-774	-613	219
Impairment charges/goodwill amortisation	€th	0.00	0.00	0.00	0.00
Other adjustments	€th				
Adjusted attributable net profit	€th	-282	-774	-613	219
Interest expense savings	€th				
Fully diluted adjusted attr. net profit	€th	-282	-774	-613	219
NOPAT	€th	-175	-495	73.7	722

Cashflow Statement

		12/18A	12/19E	12/20E	12/21E
EBITDA	€th	21.3	-363	927	1,318
Change in WCR	€th	-144	0.00	500	0.00
<i>of which (increases)/decr. in receivables</i>	€th	-620	0.00	500	0.00
<i>of which (increases)/decr. in inventories</i>	€th	0.00	0.00	0.00	0.00
<i>of which increases/(decr.) in payables</i>	€th	182	0.00	0.00	0.00
<i>of which increases/(decr.) in other curr. liab.</i>	€th	294	0.00	0.00	0.00
Actual dividends received from equity holdings	€th	0.00	0.00	0.00	0.00
Paid taxes	€th	-2.45	0.00	-211	-320
Exceptional items	€th				
Other operating cash flows	€th	207			
Total operating cash flows	€th	82.0	-363	1,216	998
Capital expenditure	€th	-1,313	-500	-500	-400
<i>Capex as a % of depreciation & amort.</i>	%	446	143	130	96.9
Net investments in shares	€th				
Other investment flows	€th	-136	0.00 ⁽⁵⁾	-2,000	-1,000
Total investment flows	€th	-1,449	-500	-2,500	-1,400
Net interest expense	€th	-29.3	-60.6	-501	-485
<i>of which cash interest expense</i>	€th	-29.3	-54.9	-494	-478
Dividends (parent company)	€th				
Dividends to minorities interests	€th	0.00	0.00	0.00	0.00
New shareholders' equity	€th	1,061	0.00	2,015	2,015
<i>of which (acquisition) release of treasury shares</i>	€th				
(Increase)/decrease in net debt position	€th	687	479	-855	0.00
Other financial flows	€th	25.1			
Total financial flows	€th	1,743	424	666	1,537
Change in cash position	€th	377	-439	-618	1,135
Change in net debt position	€th	-310	-918	237	1,135
Free cash flow (pre div.)	€th	-1,260	-924	215	113
Operating cash flow (clean)	€th	82.0	-363	1,216	998
<i>Reinvestment rate (capex/tangible fixed assets)</i>	%	116	44.0	44.0	35.2

5. Considered investment in New Energies

Balance Sheet

		12/18A	12/19E	12/20E	12/21E
Capitalised R&D	€th	2,942	3,092	3,207	3,195
Goodwill	€th				
Other intangible assets	€th	0.00	0.00	0.00	0.00
Total intangible	€th	2,942	3,092	3,207	3,195
Tangible fixed assets	€th	1,136	1,136	1,136	1,136
Financial fixed assets (part of group strategy)	€th				
Other financial assets (investment purpose mainly)	€th	198	198	198	198
WCR	€th	2,192	2,192	1,692	1,692
<i>of which trade & receivables (+)</i>	<i>€th</i>	<i>3,179</i>	<i>3,179</i>	<i>2,679</i>	<i>2,679</i>
<i>of which inventories (+)</i>	<i>€th</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>
<i>of which payables (+)</i>	<i>€th</i>	<i>951</i>	<i>951</i>	<i>951</i>	<i>951</i>
<i>of which other current liabilities (+)</i>	<i>€th</i>	<i>35.6</i>	<i>35.6</i>	<i>35.6</i>	<i>35.6</i>
Other current assets	€th	188	182	182	182
<i>of which tax assets (+)</i>	<i>€th</i>				
Total assets (net of short term liabilities)	€th	6,655	6,800	6,416	6,403
Ordinary shareholders' equity (group share)	€th	4,076	2,975	2,823	3,940
Minority interests	€th		0.00 ⁽⁶⁾	0.00	0.00
Provisions for pensions	€th		328	333	338
Other provisions for risks and liabilities	€th	83.4	83.4	83.4	83.4
Deferred tax liabilities	€th	1,225	1,225	1,225	1,225
Other liabilities	€th	31.2	31.2	31.2	31.2
Net debt / (cash)	€th	1,239 ⁽³⁾	2,158	1,920	785
Total liabilities and shareholders' equity	€th	6,655	6,800	6,416	6,403
Average net debt / (cash)	€th	1,053	1,698	2,039	1,353
Off B/S business guarantees given	€th	374	374	374	374
Contingent considerations	€th	263 ⁽⁷⁾	263	263	263

EV Calculations

		12/18A	12/19E	12/20E	12/21E
EV/EBITDA(R)	x	ns	-26.0	8.40	5.17
EV/EBIT (underlying profit)	x	-26.0	-13.3	14.4	7.53
EV/Sales	x	0.99	1.31	0.89	0.31
EV/Invested capital	x	1.13	1.47	1.29	1.13
Market cap	€th	5,784	6,881	5,446	5,609
+ Provisions (including pensions)	€th	83.4	411	416	421
+ Unrecognised actuarial losses/(gains)	€th	0.00	0.00	0.00	0.00
+ Net debt at year end	€th	1,239	2,158	1,920	785
+ Leases debt equivalent	€th	0.00	0.00	0.00	0.00
- Financial fixed assets (fair value) & Others	€th				
+ Minority interests (fair value)	€th				
= Enterprise Value	€th	7,107	9,450	7,783	6,815

6. Considered minority interests in New Energies JV (see Money Making section for more details)
3. Note that we consider the advance from ADEME (c.€0.8m) as debt as we expect a favourable outcome from the project.
7. plan de réduction de salaires et de réduction des charges du personnel sous-traité avec clause de retour à meilleure fortune

Per Share Data

		12/18A	12/19E	12/20E	12/21E
Adjusted EPS (bfr goodwill amort. & dil.)	€	-0.05	-0.12	-0.07	0.02
Growth in EPS	%	n/a	n/a	n/a	n/a
Reported EPS	€	-0.04	-0.12	-0.07	0.03
Net dividend per share	€	0.00	0.00	0.00	0.00
Free cash flow per share	€	-0.22	-0.15	0.03	0.01
Operating cash flow per share	€	0.01	-0.06	0.16	0.12
Book value per share	€	0.64	0.47	0.34	0.46

		12/18A	12/19E	12/20E	12/21E
Number of ordinary shares	Th	6,364	6,364	8,379	8,629
Number of equivalent ordinary shares (year end)	Th	6,364	6,364	8,379	8,629
Number of shares market cap.	Th	6,364	6,364	6,364	6,364
Treasury stock (year end)	Th				
Number of shares net of treasury stock (year end)	Th	6,364	6,364	8,379	8,629
Number of common shares (average)	Th	5,834	6,364	7,372	8,504
Conversion of debt instruments into equity	Th			1,765	1,765
Settlement of cashable stock options	Th			250 ⁽⁸⁾	250 ⁽⁹⁾
Probable settlement of non mature stock options	Th				
Other commitments to issue new shares	Th				
Increase in shares outstanding (average)	Th	0.00	0.00	1,008	2,015
Number of diluted shares (average)	Th	5,834	6,364	8,379	10,519
Goodwill per share (diluted)	€	0.00	0.00	0.00	0.00
EPS after goodwill amortisation (diluted)	€	-0.05	-0.12	-0.07	0.02
EPS before goodwill amortisation (non-diluted)	€	-0.05	-0.12	-0.08	0.03
Actual payment	€				
	%	0.00	0.00	0.00	0.00
Capital payout ratio (div +share buy back/net income)	%	0.00	0.00	0.00	

Funding - Liquidity

		12/18A	12/19E	12/20E	12/21E
EBITDA	€th	21.3	-363	927	1,318
Funds from operations (FFO)	€th	196	-418	222	520
Ordinary shareholders' equity	€th	4,076	2,975	2,823	3,940
Gross debt	€th	2,358	2,838	1,982	1,982
o/w 1 to 5 year - Gross debt	€th	1,594	1,138	282	282
o/w Beyond 5 years - Gross debt	€th	764 ⁽¹⁰⁾	1,700	1,700	1,700
+ Gross Cash	€th	1,119	680	62.2	1,197
= Net debt / (cash)	€th	1,239⁽³⁾	2,158	1,920	785

		12/18A	12/19E	12/20E	12/21E
Other financing	€th	2,358	2,838	1,982	1,982
Gearing (at book value)	%	25.8	57.1	72.2	34.3
Adj. Net debt/EBITDA(R)	x	58.3	-5.94	2.07	0.60
Adjusted Gross Debt/EBITDA(R)	x	115	-8.94	2.59	1.82
Adj. gross debt/(Adj. gross debt+Equity)	%	37.5	52.2	45.9	37.9
Ebit cover	x	-9.34	-13.0	1.10	1.89
FFO/Gross Debt	%	8.04	-12.9	9.27	21.6
FFO/Net debt	%	15.8	-19.4	11.6	66.2
FCF/Adj. gross debt (%)	%	-51.6	-28.4	8.98	4.69

8. Assuming exercise of 500k warrants spread over 2020 and 2021 from CEO

9. Common share purchase warrant attributed to CEO in Q4 18 (strike price €1)

10. ADEME advance

3. Note that we consider the advance from ADEME (c.€0.8m) as debt as we expect a favourable outcome from the project.

ROE Analysis (Dupont's Breakdown)

		12/18A	12/19E	12/20E	12/21E
Tax burden (Net income/pretax pre excp income)	x	1.01	1.00	1.52	0.41
EBIT margin (EBIT/sales)	%	-3.49	-9.90	1.12	4.68
Assets rotation (Sales/Avg assets)	%	119	107	133	341
Financial leverage (Avg assets /Avg equity)	x	1.63	1.91	2.28	1.90
ROE	%	-7.64	-21.9	-21.1	6.47
ROA	%	-3.99	-11.1	1.63	17.0

Shareholder's Equity Review (Group Share)

		12/18A	12/19E	12/20E	12/21E
Y-1 shareholders' equity	€th	3,239	4,018	2,975	2,823
+ Net profit of year	€th	-282	-774	-613	219
- Dividends (parent cy)	€th	0.00	0.00	0.00	0.00
+ Additions to equity	€th	1,061	0.00	2,015	2,015
<i>o/w reduction (addition) to treasury shares</i>	€th	0.00	0.00	0.00	0.00
- Unrecognised actuarial gains/(losses)	€th	0.00	0.00	0.00	0.00
+ Comprehensive income recognition	€th		-270	-1,554	-1,117
= Year end shareholders' equity	€th	4,018	2,975	2,823	3,940

Staffing Analytics

		12/18A	12/19E	12/20E	12/21E
Sales per staff	€th	275	267	313	625
Staff costs per employee	€th	-158	-161	-165	-168
<i>Change in staff costs</i>	%	4.85	6.16	6.33	27.2
<i>Change in unit cost of staff</i>	%	57.3	2.22	2.53	1.77
<i>Staff costs/(EBITDA+Staff costs)</i>	%	99.5	109	83.3	81.7

Average workforce	unit	26.0	27.0	28.0	35.0
Europe	unit	0.00	0.00	0.00	0.00
North America	unit	0.00	0.00	0.00	0.00
South Americas	unit	0.00	0.00	0.00	0.00
Asia	unit	0.00	0.00	0.00	0.00
Other key countries	unit	40.0	50.0	60.0	60.0
Total staff costs	€th	-4,099	-4,352	-4,627	-5,886
Wages and salaries	€th	-4,099	-4,352	-4,627	-5,886
<i>of which social security contributions</i>	€th	-999	-1,060	-1,127	-1,434
Equity linked payments	€th				
Pension related costs	€th		0.00	0.00	0.00

Divisional Breakdown Of Revenues

		12/18A	12/19E	12/20E	12/21E
Total sales	€th	7,149	7,200	8,775	21,875
Services	€th	2,722	2,700	2,700	3,500
Factorig	€th	4,212	4,500	4,750	5,000
Solutions	€th	215	0.00	100	500
Contracting	€th	0.00	0.00	100	500
New Energies	€th	0.00 ⁽¹⁾	0.00	1,125	12,375
Other	€th				

1. For information purposes, we report the revenues from the New Energies SPV as a whole. See Funding section for more details on our assumptions.

Divisional Breakdown Of Earnings

		12/18A	12/19E	12/20E	12/21E
EBIT Analysis					
Factorig	€th	605	585	570	700
Solutions	€th	205	0.00	5.00	25.0
Contracting	€th	0.00	0.00	100	200
Services	€th	-45.9	27.0	27.0	140
New Energies	€th	(2)	-1,165	-47.5	1,078
Other/cancellations	€th				
Total	€th	764	-553	655	2,143
EBIT margin	%	10.7	-7.68	7.46	9.79

2. Net attributable profit to Dietswell is reported in earnings from joint ventures. For information purposes, we report the EBIT from the New Energies SPV as a whole. See Funding section for more details on our assumptions.

Revenue Breakdown By Country

		12/18A	12/19E	12/20E	12/21E
Other	%	100	100		

ROCE/CFROIC/Capital Invested

		12/18A	12/19E	12/20E	12/21E
ROCE (NOPAT+lease exp.*(1-tax))/(net) cap employed adjusted	%	-2.79	-7.71	1.22	12.0
CFROIC	%	-20.1	-14.4	3.57	1.87
Capital Employed					
Goodwill	€th	0.00	0.00	0.00	0.00
Accumulated goodwill amortisation	€th	0.00	0.00	0.00	0.00
All intangible assets	€th	0.00	0.00	0.00	0.00
Accumulated intangible amortisation	€th	0.00	0.00	0.00	0.00
Financial hedges (LT derivatives)	€th	0.00	0.00	0.00	0.00
Capitalised R&D	€th	2,942	3,092	3,207	3,195
PV of non-capitalised lease obligations	€th	0.00	0.00	0.00	0.00
Other fixed assets	€th	1,136	1,136	1,136	1,136
Accumulated depreciation	€th	0.00	0.00	0.00	0.00
WCR	€th	2,192	2,192	1,692	1,692
Other assets	€th	0.00	0.00	0.00	0.00
Unrecognised actuarial losses/(gains)	€th	0.00	0.00	0.00	0.00
Capital employed after deprec. (Invested capital)	€th	6,269	6,420	6,035	6,022
Capital employed before depreciation	€th	6,269	6,420	6,035	6,022

Divisional Breakdown Of Capital

		12/18A	12/19E	12/20E	12/21E
Factorig	€th				
Solutions	€th				
Contracting	€th				
Services	€th				
New Energies	€th				
Other	€th	6,269	6,420	6,035	6,022
Total capital employed	€th	6,269	6,420	6,035	6,022

Pension Risks

Summary Of Pension Risks

		12/18A	12/19E	12/20E	12/21E
Pension ratio	%	8.53	9.92	10.5	7.89
Ordinary shareholders' equity	€th	4,076	2,975	2,823	3,940
Total benefits provisions	€th	380	328	333	338
<i>of which funded pensions</i>	€th	0.00	0.00	0.00	0.00
<i>of which unfunded pensions</i>	€th	380	328	333	338
<i>of which benefits / health care</i>	€th		0.00	0.00	0.00
Unrecognised actuarial (gains)/losses	€th	0.00	0.00	0.00	0.00
<i>Company discount rate</i>	%	2.50	2.50	2.50	2.50
Normalised recomputed discount rate	%		1.50		
<i>Company future salary increase</i>	%	2.00	2.00	2.00	2.00
Normalised recomputed future salary increase	%		2.00		
<i>Company expected rate of return on plan assets</i>	%	2.50	2.50	2.50	2.50
Normalised recomputed expd rate of return on plan assets	%		0.00		
Funded : Impact of actuarial assumptions	€th		0.00		
Unfunded : Impact of actuarial assumptions	€th		82.3		

Geographic Breakdown Of Pension Liabilities

		12/18A	12/19E	12/20E	12/21E
US exposure	%				
UK exposure	%				
Euro exposure	%	100	100		
Nordic countries	%				
Switzerland	%				
Other	%				
Total	%	100	100	0.00	0.00

Balance Sheet Implications

		12/18A	12/19E	12/20E	12/21E
Funded status surplus / (deficit)	€th	0.00	0.00	0.00	0.00
Unfunded status surplus / (deficit)	€th	-380	-468	-475	-482
Total surplus / (deficit)	€th	-380	-468	-475	-482
Total unrecognised actuarial (gains)/losses	€th	0.00	0.00	0.00	0.00
Provision (B/S) on funded pension	€th	0.00	0.00	0.00	0.00
Provision (B/S) on unfunded pension	€th	380	328	333	338
Other benefits (health care) provision	€th		0.00	0.00	0.00
Total benefit provisions	€th	380	328	333	338

P&L Implications

		12/18A	12/19E	12/20E	12/21E
Funded obligations periodic costs	€th	0.00	0.00	0.00	0.00
Unfunded obligations periodic costs	€th	0.00	-5.70	-7.02	-7.13
Total periodic costs	€th	0.00	-5.70	-7.02	-7.13
<i>of which incl. in labour costs</i>	€th	0.00	0.00	0.00	0.00
<i>of which incl. in interest expenses</i>	€th	0.00	-5.70	-7.02	-7.13

Funded Obligations

		12/18A	12/19E	12/20E	12/21E
Balance beginning of period	€th	0.00	0.00	0.00	0.00
Current service cost	€th		0.00	0.00	0.00
Interest expense	€th		0.00	0.00	0.00
Employees' contributions	€th				
Impact of change in actuarial assumptions	€th		0.00	0.00	0.00
<i>of which impact of change in discount rate</i>	€th		0.00		
<i>of which impact of change in salary increase</i>	€th		0.00		
Changes to scope of consolidation	€th	0.00			
Currency translation effects	€th	0.00			
Pension payments	€th	0.00			
Other	€th	0.00			
Year end obligation	€th	0.00	0.00	0.00	0.00

Plan Assets

		12/18A	12/19E	12/20E	12/21E
Value at beginning	€th		0.00	0.00	0.00
Company expected return on plan assets	€th		0.00	0.00	0.00
Actuarial gain /(loss)	€th		0.00	0.00	0.00
Employer's contribution	€th	0.00	0.00	0.00	0.00
Employees' contributions	€th	0.00	0.00	0.00	0.00
Changes to scope of consolidation	€th	0.00			
Currency translation effects	€th	0.00			
Pension payments	€th	0.00	0.00	0.00	0.00
Other	€th	0.00			
Value end of period	€th	0.00	0.00	0.00	0.00
Actual and normalised future return on plan assets	€th	0.00	0.00	0.00	0.00

Unfunded Obligations

		12/18A	12/19E	12/20E	12/21E
Balance beginning of period	€th	190	380	468	475
Current service cost	€th		0.00	0.00	0.00
Interest expense	€th		5.70	7.02	7.13
Employees' contributions	€th	0.00			
Impact of change in actuarial assumptions	€th		82.3	0.00	0.00
<i>of which Impact of change in discount rate</i>	€th		82.3		
<i>of which Impact of change in salary increase</i>	€th		0.00		
Changes to scope of consolidation	€th	0.00			
Currency translation effects	€th	0.00			
Pension payments	€th	190			
Other	€th	0.00			
Year end obligation	€th	380	468	475	482

Fundamental Opinion

It is implicit that recommendations are made in good faith but should not be regarded as the sole source of advice.

Recommendations are geared to a “value” approach.

Valuations are computed from the point of view of a **secondary market minority holder** looking at a medium term (say 6 months) performance.

Valuation tools are built around the concepts of **transparency**, all underlying figures are accessible, and **consistency**, same methodology whichever the stock, allowing for differences in nature between financial and non financial stocks. A stock with a target price below its current price should not and will not be regarded as an Add or a Buy.

Recommendations are based on target prices with no allowance for dividend returns. The thresholds for the four recommendation levels may change from time to time depending on market conditions. Thresholds are defined as follows, ASSUMING long risk free rates remain in the 2-5% region.

Recommendation	Low Volatility 10 < VIX index < 30	Normal Volatility 15 < VIX index < 35	High Volatility 35 < VIX index
Buy ●	More than 15% upside	More than 20% upside	More than 30% upside
Add ■	From 5% to 15%	From 5% to 20%	From 10% to 30%
Reduce ■	From -10% to 5%	From -10% to 5%	From -10% to 10%
Sell ●	Below -10%	Below -10%	Below -10%

There is deliberately no “neutral” recommendation. The principle is that there is no point investing in equities if the return is not at least the risk free rate (and the dividend yield which again is not allowed for).

Although recommendations are automated (a function of the target price whenever a new equity research report is released), the management of AlphaValue intends to maintain global consistency within its universe coverage and may, from time to time, decide to change global parameters which may affect the level of recommendation definitions and /or the distribution of recommendations within the four levels above. For instance, lowering the risk premium in a gloomy context may increase the proportion of positive recommendations.

Valuation

Valuation processes have been organized around transparency and consistency as primary objectives.

Stocks belong to different categories that recognise their main operating features : Banks, Insurers and Non Financials.

Within those three universes, the valuation techniques are the same and in relation to the financial data available.

The weighting given to individual valuation techniques is managed centrally and may be changed from time to time. As a rule, all stocks of a similar profile are valued using equivalent weighting of the various valuation techniques. This is for obvious consistency reasons.

Within the very large universe of Non Financials, there are in effect 4 sub-categories of weightings to cater for subsets: 1) 'Mainstream' stocks; 2) 'Holding companies' where the stress is on NAV measures; 3) 'Growth' companies where the stress is on peer based valuations; 4) 'Loss making sectors' where peers review is essentially pointing nowhere (ex: Bio techs). The bulk of the valuation is then built on DCF and NAV, in effect pushing back the time horizon.

Valuation Issue	Normal industrials	Growth industrials	Holding company	Loss runners	Bank	Insurers
DCF	35%	35%	10%	40%	0%	0%
NAV	20%	20%	55%	40%	50%	15%
PE	10%	10%	10%	5%	10%	20%
EV/EBITDA	20%	20%	0%	5%	0%	0%
Yield	10%	10%	20%	5%	10%	15%
Book	5%	5%	5%	5%	10%	10%
Banks' intrinsic method	0%	0%	0%	0%	10%	0%
Embedded Value	0%	0%	0%	0%	0%	40%
Mkt Cap/Gross Operating Profit	0%	0%	0%	0%	10%	0%