REFUELS N.V.
(REFL NO)

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04 March 2024

Price (NOK)	**17.7**
Shares in issue (m)	60
Mkt Cap (NOKm)	1,069
Net debt (NOKm)	-88
EV (NOKm)	982
BVPS (c)	198.0

Share price performance	
1m	-1.7%
3m	-31.9%
12m	n/a
12 m high/low	35/0
Ave daily vol (30D)	1,175

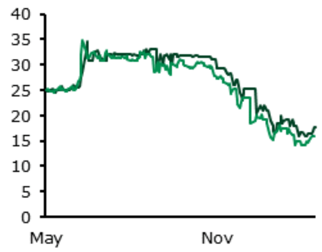
Shareholders	
Baden Gowrie-Smith	24.58%
CNG Services Assets	19.79%
Philip Fjeld	19.61%
Papailoa Holdings	7.28%
Arcalis Guernsey	5.28%
Borumajobe Limited	2.63%
Rakesh Patel	2.11%
Chrysalis I'ments	1.77%
Ian Roughley	1.73%
Thornaby Limited	1.67%

Source: Euronext

Next news

Business description

Bio-compressed natural gas refuelling stations



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STATION NETWORK CONSOLIDATION

ReFuels Q3 report indicated the potential for a consolidation of the existing station network which has been developed in a JV with Foresight Group. Management are in advanced discussions with an estimated consideration of £145m required to buy out Foresight and consolidate the existing structure under ReFuels. Whilst discussions remain ongoing and details of the debt and equity split for the financing are yet to be determined, we see this as a logical move for the business and one that will provide clear benefits for investors in the long term through reduced complexity, improved earnings quality and clarity and enhanced liquidity. Whilst there will be dilution from the equity component of the deal, which sees our central case valuation potentially move from NOK139 to NOK84, the deal is accretive when viewed in isolation with conservative modelling displaying a 14% IRR. We see this deal as being transformative for ReFuels and would expect it to set the foundations for the next stage of the company's growth.

Potential Consideration Structure

We have assumed, based on a total consideration of £145m, that the financing of would be a debt and equity split, with Foresight retaining an equity portion given this was explicitly mentioned by management in the announcement. We have assumed that the existing Foresight facility of £106m will be repaid in cash along with the upper end of their hurdle requirement (13%) for a total of £125m. The remaining £20m consideration will be issued to Foresight as equity. We have assumed that the cash portion will be financed at 60:40 meaning a debt raise of £75m and an equity raise of £50m. When combined with the equity portion for Foresight bringing the equity issue to £70m.

Earnings Profile Improves

ReFuels has been seen as a play on the RTFC price, which has been at historic lows of late. Bringing the station network into the group allows ReFuels to benefit from the compression margin that is charged on the retailing of the gas to customer fleets. Currently this sits in the JV and as a non-consolidated entity is not included in ReFuels earnings. Bringing this in will bring steady, constant and growing EBITDA and improve group profitability by lowering the reliance on RTFC revenues.

Consolidated Structure Provides Clarity

Investors have been clear that they do not like the existing off balance sheet structure with Foresight and it has become clear to the company that whilst the structure suited ReFuels as a private company and allowed for the development of their initial network, this is likely to become a hindrance to the development of the wider station network in the longer term. Bringing the network under the ReFuels umbrella, even with the cost of dilution, ought to give investors increased comfort and visibility over the group performance.

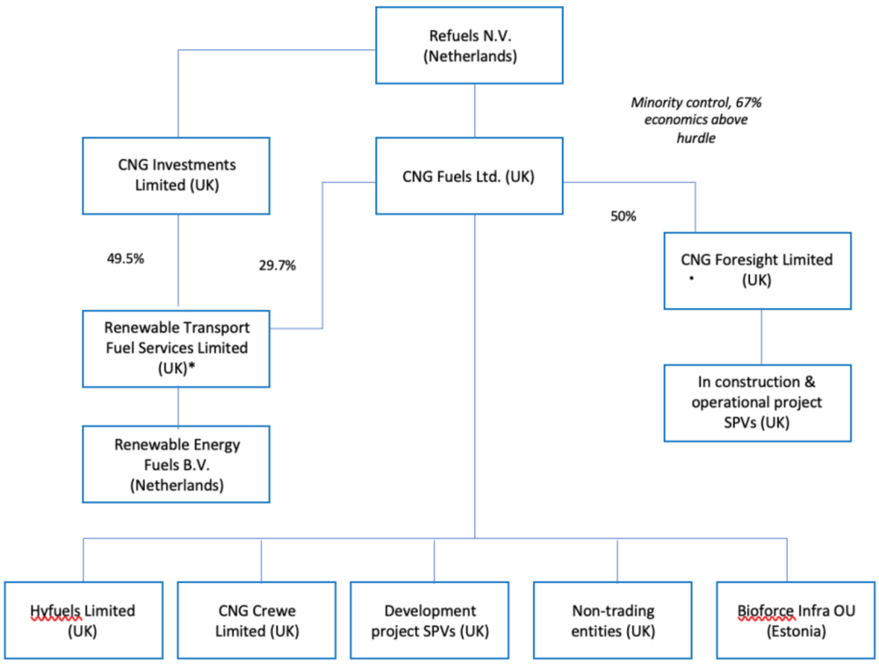
Improved Liquidity

The low free float has been identified as an issue by potential investors and the equity portion of this fundraising will go some way to alleviating these concerns. Based on our estimated equity portion of the financing, an additional 52.2m shares will be issued, nearly doubling the existing share count of 60.4m.

Current JV Structure

Not currently consolidated into the ReFuels listed entity is the CNG Foresight Joint Venture. This entity currently has 12 operating bio-CNG stations with another two due to open in 2024 under the arrangement. Foresight have provided £106m of debt under the terms of the JV to date and retain all of the profits arising at the station level under the agreement until a predetermined hurdle rate of 13% is cleared, after which ReFuels receives 67% of profits through dividends. Under the JV terms ReFuels has historically received EPC and construction revenues from building the stations before these are transferred to the JV in addition to £100k per annum in station management fees. These revenues would drop away from ReFuels going forward unless future refilling stations are developed under similar terms or the JV is extended. Under the existing structure we expect the Foresight hurdle rate to be cleared in 2031 based on the available information and our modelling, at which point we expect to see dividend income of c.£4m per annum being recognised dependent on gas volumes dispensed.

COMPANY STRUCTURE



Source: ReFuels

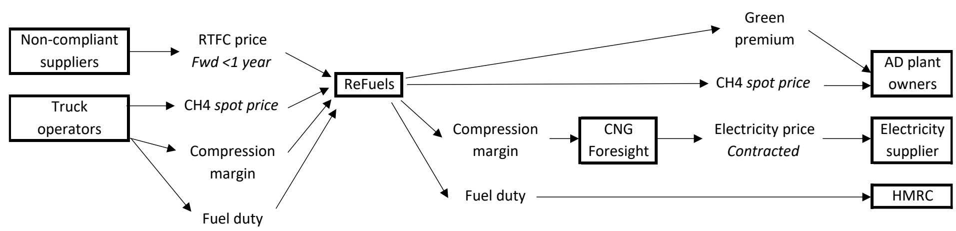
Consolidating the remaining 50% of the JV (CNG Foresight Limited (UK), above) will see the entity coming 100% under CNG Fuels Limited, providing majority control and earnings consolidated into the ReFuels group.

Structural Clarity

Success in consolidating the JV will provide important structural clarity for investors in ReFuels. The current JV structure has served its purpose in allowing for the development of the station network and allowing for ReFuels to benefit from outsourced capital whilst maintaining a small balance sheet and benefitting from the RTFC price, however this was likely better suited to when ReFuels was not a listed entity.

Off balance sheet financing structures are not popular with public markets investors given their chequered history and whilst management have been clear in presenting the volume and earnings potentials of the stations, there is complexity in understanding the cashflows between entities, the cost of capital, and in particular determining when the cashflows from the operations would begin to flow back to ReFuels as dividends.

Current ReFuels Cashlows Between Parties



Source: Longspur Research

Bringing the rest of the JV under ReFuels and refinancing the debt will give more clarity over the funding position for the stations and the group. Bringing the debt onto the balance sheet and being able to more accurately determine the funding requirements and cashflows within the group provides important visibility for a company that does not have an extensive history in the public markets.

We expect this less exotic structure will also open further opportunities with lenders, equity investors or project financiers to support the growth of the wider station network in the immediate term. We see continued rapid development of the station network in order to establish market position and a defensive moat as being critical for the long term growth of the business.

Consistent, Higher Quality Earnings

There will be an immediate positive EBITDA benefit from a consolidation of the current JV into ReFuels and from the compression margin at the stations in the JV. Compression margin at the ReFuels stations of between 20% and 30% on the gas retail price is charged to fleet operators.

Under the current JV terms until the Foresight hurdle is cleared, earnings generated from the compression margin accrue to Foresight. Whilst we expect this to be cleared by 2031 using our conservative modelling, bringing the stations under ReFuels will allow the benefits to accrue directly to ReFuels. This will provide growing, consistent earnings provided the uptake of bio-CNG HGVs continues and utilisation rates at the existing station network grows. Whilst there will be debt coming onto the balance sheet and corresponding finance costs, provided this can be done at attractive rates, this should be amply covered by the growing earnings from dispensed gas.

Under the current structure, incremental improvements to station operating margins, such as the recent discount achieved on electricity prices across the station portfolio, are not reflected in the ReFuels results. The benefit currently accrues to Foresight in the short term and brings forward the period at which the hurdle rate is cleared, ultimately benefitting ReFuels in the longer term. The consolidation will bring these earnings forward for ReFuels.

Whilst earnings visibility will improve for investors, consolidated cashflows will also open up the potential to divert these cashflows to support value accretive projects upstream or to support the further growth of the station network over the medium to long term.

In terms of earnings quality, the addition of consistent compression margin derived EBITDA will reduce ReFuels' earnings reliance on the RTFC to generate earnings. Recent RTFC price volatility has been reflected in ReFuels' bottom line and the consolidation of the station network will add important revenue diversification, immediately reducing the impact of RTFC price volatility on group profitability. Determining the group earnings profile based on the RTFC price has been difficult as the market is thinly traded with opaque pricing. ReFuels have typically sold forward 30% of RTFCs generated however with the low prices recognised in the current period, this proportion has been reduced with more certificates being sold at the spot price. Currently, the group is roughly breakeven at an RTFC price of 18p and beyond 20p is able to generate significant profits due to the level of operational gearing.

Whilst we ultimately expect the RTFC price to recover in the next 12 months and for this to be maintained, there are a number of external factors which can contribute to the RTFC price, as evidenced by the dumping of Chinese biodiesel into the market. The consolidation of the JV reduces this exposure to market volatility and provides a portion of earnings that are directly driven by the increased adoption of bio-CNG trucks and the volumes dispensed at the growing ReFuels station network.

We currently see 14 stations under the Foresight JV in operation by the end of FY 24, assuming the 12 current operating stations and the two in build coming online this year. Using indicative station economics from management combined with conservative assumptions we estimate that the stations will generate an EBITDA figure in the current financial year of £7m.

This increases incrementally over our forecast period, driven by the increasing number of CNG fuelled trucks on the road and increasing distribution volumes increasing across the station network. We then see a material EBITDA increase from 2028 onwards as utilisation at stations increases significantly. We have used a Bass diffusion model to determine the rate of CNG fuelled HGV uptake amongst fleet operators. Our modelled uptake rate is slower than that forecast by management in the short term, based the methodology of the Bass diffusion model, before our uptake accelerates in 2028 as market penetration increases significantly. Management's expectation is that based on the current order book of confirmed truck orders with partner fleet operators, the station portfolio will be generating more than £1m in EBITDA a month, amounting to £14m per annum at the current run-rate.

Based on the current station run rate, combined with our modelled CNG truck adoption profile, we see the acquisition of the remaining share of the 14 station network delivering a post tax unlevered IRR of 14% over a 20 year station lifetime, excluding RTFCs generated at the stations. EBITDA at the stations is generated through the collection of a pass through margin of 20%-30%, covering the cost of compression, fuel duties and administration costs. This fixed margin insulates the company from gas price volatility and leaves cashflows driven by the volume of gas distributed. The gas volume distributed is driven by the uptake of CNG fleets over time, which have displayed consistent growth over the past few years and are forecast to continue to grow strongly.

Illustrative IRR

Station Life	20 Years
Consideration	-£145,000,000
Gross Revenues	£2,506,407,686
Free cashflow	£ 22,401,389
WACC	11.9%
IRR	**14%**

Source: Longspur Research

Impact of Leverage

The leverage profile on the balance sheet will change significantly, and there will be a corresponding increase in assets on the balance sheet from the station network and a reasonable debt balance. This is not likely to be overbearing based on our modelled EBITDA numbers but could be well be too high for some public equity market investors at first issuance.

Without knowing the exact quantum and debt terms, it is difficult to profile the debt repayment profile, however we would expect a cost of debt of around 9%, in line with that used in our initiation note. Assuming this, we would see interest costs at c£6.75m initially based on a debt raise of £75m. Whilst this covers a substantial portion of EBITDA in 2024 at £7m, over time this falls particularly from 2028 onwards in our modelling, and even faster if based on management's estimates for £14m of EBITDA generated in FY 25. When combined with the RTFC price potentially recovering, we do not see this as an onerous debt burden for the company.

Whilst the Debt/EBITDA ratio looks high for 2024, due to the high cost base in the year arising from listing costs and low RTFC price pushing the company into a loss, moving onwards from 2024, this drops annually due to the strong earnings growth. In our company model we have included additional debt funding moving forwards to support the development of the station network, however this could conceivably be financed through cashflows with the company moving into a pre-tax profit position in 2025 post transaction.

Liquidity

We expect that any consolidation and refinancing involving Foresight would likely involve a large cash consideration and we note that management have also explicitly mentioned a partial conversion in equity in ReFuels. We would expect the cash element to be substantial and debt funded to the largest extent possible in an attempt to limit the dilution for existing equity investors, however it remains unclear what scale the equity component of the financing and the equity conversion portion would look like combined.

Regardless, this will likely provide needed liquidity for the stock, potentially opening the door to a broader base of institutional investors. We would expect any conversion of equity by Foresight to come with a lock up period and can't imagine that in the discussions management have had to date that Foresight would not accept an equity stake, given this has been disclosed as an option.

As noted on the shareholder register, Philip Fjeld (CEO) and Baden Gowrie-Smith (CFO) hold close to 45% of the shares with the rest of the register also tightly held, limiting liquidity. On the recent earnings call, management have noted that they are accepting of dilution given, in their view, that the proposed restructuring of the JV will be significantly accretive for the company.

The low free float has been identified as an issue by potential investors and the equity portion of this fundraising will go some way to alleviating these concerns. Based on our estimated equity portion of the financing, this will see an additional 52.2m shares added, increasing the current free float by nearly doubling the existing share count of 60.4m.

Potential Central Case Valuation

We have run a scenario in our model to reflect a hypothetical consolidation for the consideration price identified. We have assumed the £106m Foresight facility that has currently been drawn down plus £19m (13% being the higher end of the hurdle rate) will be cash settled, funded by a mix of debt and equity. The remaining £20m in the £145m consideration will be equity settled to Foresight.

We have used an approximate 60:40 debt to equity ratio in this instance but note that management gave no indications on the debt to equity split in the recent report or earnings call. This would represent an approximate £70m equity raise and a £75m debt component in in order to reach the £145m consideration price.

Using our existing model to reflect this, bringing the cashflows under ReFuels and assets and debt onto the balance sheet and see a decrease in our target valuation price, which moves from NOK 139 to NOK84 on account of the dilution, still presenting considerable upside to the current share price of NOK17.7.

The bulk of our valuation in ReFuels is driven by the long term expansion of the station network and the uptake of CNG trucks and originally viewed this as being done outside of the JV once the original facility was fully drawn down. Our target price assumes that the bulk of the ReFuels station growth in future We have modelled this at the current share price and note that any discount would further increase the dilution and reduce the central case valuation.

Whilst of more peripheral importance, the structural shift will bring ReFuels more in line with its peers and allow for greater comparability. ReFuels looks slightly undervalued comparatively on several forward looking metrics post transaction, and this suggests that there may be scope for some multiple expansion post transaction, assuming a re-rating in line with fuel distribution peers. ReFuels becoming a profitable core infrastructure business, as compared to a loss making trading company will immediately expand its relevant investor universe.

Peer Group Multiples

Company	Ticker	Market Cap (£m)	EV (£m)	PE hist.	PE prosp.	EV/EBITDA hist.	EV/EBITDA prosp.	EV/Sales hist.	EV/Sales prosp.
Refuels Nv	REFL NO	80	80	na	88.5	na	10.5	1.0	0.6
Opal Fuels	OPAL US	656	656	9.0	5.9	16.4	7.57	3.9	2.5
Clean Energy Fuels	CLNE US	521	564	na	27.8	8.7	4.82	1.7	1.5
Rubis	RUI FP	2,148	3,687	8.1	7.2	6.1	5.97	0.7	0.7
Dcc Plc	DCC	5,552	7,079	12.1	11.2	7.7	7.34	0.3	0.3
Mean		2,219	2,997	9.7	13.0	9.7	6.4	1.7	1.2
Median		1,402	2,171	9.0	9.2	8.2	6.7	1.2	1.1
Max		5,552	7,079	12.1	27.8	16.4	7.6	3.9	2.5
Min		521	564	8.1	5.9	6.1	4.8	0.3	0.3

Source: Bloomberg

Summarised Financial Information

Pre-transaction

£,000 Mar	2022a	2023a	2024e	2025e	2026e	2027e
Sales	83,845	127,120	98,344	167,607	250,162	365,111
EBITDA	3,002	2,862	-11,857	7,622	23,787	45,736
PBT	2,825	2,514	-11,849	2,178	12,256	27,492
EPS	2.4	-1.7	-22.4	-7.1	-1.0	9.0
CFPS	70.0	4.8	68.7	-46.2	-23.2	-23.0
DPS	0.0	0.0	0.0	0.0	0.0	0.0
Net Debt (Cash)	-5,273	-6,567	-2,517	25,474	55,399	93,325
Debt/EBITDA	-1.8	-2.3	0.2	3.3	2.3	2.0
P/E	0.9	-1.2	-0.1	-0.3	-2.1	0.2
EV/EBITDA	40.1	41.6	-10.4	19.8	7.6	4.8
EV/sales	1.4	0.9	1.2	0.7	0.5	0.3
FCF yield	3357.0%	228.3%	3296.2%	-2217.7%	-1110.5%	-1103.3%
Div yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Post-transaction

£,000 Mar	2022a	2023a	2024e	2025e	2026e	2027e
Sales	83,845	127,120	145,698	230,733	310,923	427,661
EBITDA	3,002	2,862	1,991	24,755	40,385	62,705
PBT	2,825	2,514	-13,246	4,124	14,427	30,719
EPS	2.4	-1.7	-13.0	-3.0	0.6	6.8
CFPS	70.0	4.8	-111.6	0.6	2.6	0.1
DPS	0.0	0.0	0.0	0.0	0.0	0.0
Net Debt (Cash)	-5,273	-6,567	73,491	89,460	109,029	138,859
Debt/EBITDA	-1.8	-2.3	36.9	3.6	2.7	2.2
P/E	0.5	-0.8	-0.1	-0.4	2.4	0.2
EV/EBITDA	24.9	25.7	77.1	6.8	4.7	3.5
EV/sales	0.9	0.6	0.5	0.3	0.2	0.2
FCF yield	5278.2%	359.0%	-8414.7%	44.4%	193.4%	6.9%
Div yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

FINANCIAL MODEL (PRE-TRANSACTION)

Profit and Loss Account

£,000, Mar	2022a	2023a	2024e	2025e	2026e	2027e
Turnover						
RTFS Sales	83,845	127,120	58,556	102,987	165,361	251,497
Natural Gas Sales	0	0	39,788	64,620	84,801	113,613
EPC Revenue	0	0	0	0	0	0
Central Costs and Fees	0	0	0	0	0	0
Total	83,845	127,120	98,344	167,607	250,162	365,111
Operating profit						
RTFS Sales	10,696	17,384	4,685	20,597	33,072	50,299
Natural Gas Sales	0	0	160	1,427	2,368	3,888
EPC Revenue	0	0	0	0	0	0
Central Costs and Fees	-8,174	-14,524	-16,702	-17,203	-17,719	-18,251
Operating profit	2,521	2,860	-11,857	4,822	17,721	35,936
P&L Account	**2022a**	**2023a**	**2024e**	**2025e**	**2026e**	**2027e**
Turnover	83,845	127,120	98,344	167,607	250,162	365,111
Operating Profit	2,521	2,860	-11,857	4,822	17,721	35,936
Investment income	481	2	0	0	0	0
Net Interest	-177	-349	8	-2,644	-5,465	-8,445
Pre Tax Profit (UKSIP)	2,825	2,514	-11,849	2,178	12,256	27,492
Goodwill amortisation	0	0	0	0	0	0
Exceptional Items	20,299	-61	0	0	0	0
Pre Tax Profit (IFRS)	23,123	2,453	-11,849	2,178	12,256	27,492
Tax	-1,071	-1,937	0	-544	-3,064	-6,873
Post tax exceptionals	0	64	0	0	0	0
Minorities	-968	-1,567	-1,391	-6,117	-9,822	-14,939
Net Profit	21,085	-988	-13,240	-4,484	-630	5,680
Dividend	0	0	0	0	0	0
Retained	21,085	-988	-13,240	-4,484	-630	5,680
EBITDA	3,002	2,862	-11,857	7,622	23,787	45,736
EPS (p) (UKSIP)	2.41	-1.67	-22.37	-7.09	-1.00	8.98
EPS (p) (IFRS)	64.67	-1.67	-22.37	-7.09	-1.00	8.98
FCFPS (p)	69.99	4.76	68.72	-46.23	-23.15	-23.00
Dividend (p)	0.00	0.00	0.00	0.00	0.00	0.00

Source: Company data, Longspur Research estimates

KEY POINTS

- Increased RTFS revenues from improved pricing and increased gas volumes sold at both Foresight JV and 100% owned stations
- Natural gas operating profit increases as ReFuels benefits from increasing numbers of 100% owned stations
- Net profit from FY2025 and growing after that

Balance Sheet

£,000, Mar	2022a	2023a	2024e	2025e	2026e	2027e
Fixed Asset Cost	2,182	2,672	2,882	44,882	93,882	149,882
Fixed Asset Depreciation	0	0	0	-2,800	-8,867	-18,667
Net Fixed Assets	2,182	2,672	2,882	42,082	85,015	131,215
Goodwill	59,160	59,186	23,995	23,995	23,995	23,995
Other intangibles	0	0	146,029	146,029	146,029	146,029
Investments	939	0	0	0	0	0
Stock	203	721	1,009	1,009	1,009	1,009
Trade Debtors	22,078	43,378	24,249	41,328	61,684	90,027
Other Debtors	68	27	27	27	27	27
Trade Creditors	-22,263	-43,902	-32,332	-55,104	-89,099	-120,036
Other Cred<1yr	-2,875	-3,778	-3,778	-3,778	-3,778	-3,778
Creditors >1yr	-1,003	-2,191	-38,098	-38,098	-38,098	-38,098
Provisions	0	0	0	0	0	0
Pension	0	0	0	0	0	0
Capital Employed	58,490	56,113	123,983	157,490	186,785	230,390
Cash etc	5,676	8,983	2,517	3,926	5,361	559
Borrowing <1yr	402	2,416	0	0	0	0
Borrowing >1yr	0	0	0	29,400	60,760	93,884
Net Borrowing	-5,273	-6,567	-2,517	25,474	55,399	93,325
Share Capital	7	46	529	834	834	834
Share Premium	5,423	5,517	4,080	13,775	13,775	13,775
Retained Earnings	15,170	13,511	-1,120	-11,722	-22,175	-31,434
Other	41,299	41,918	119,933	119,933	119,933	119,933
Minority interest	1,864	1,687	3,079	9,196	19,019	33,958
Capital Employed	58,490	56,113	123,983	157,490	186,785	230,390
Net Assets	63,763	62,680	126,500	132,016	131,386	137,066
Total Equity	63,763	62,680	126,500	132,016	131,386	137,066

Source: Company data, Longspur Research estimates

KEY POINTS

- Other intangibles and Other Equity movements in 2024 driven by post consolidation financials compared to historic pro-forma figures
- Fixed assets increase with new stations being wholly owned by ReFuels
- Working capital moves in line with scale up of stations
- Borrowings increase to fund new stations as well as small equity raise in 2025

Cashflow

£,000, Mar	**2022a**	**2023a**	**2024e**	**2025e**	**2026e**	**2027e**
Operating profit	2,521	2,860	-11,857	4,822	17,721	35,936
Depreciation	0	0	0	2,800	6,067	9,800
Provisions	0	0	0	0	0	0
Other	20,299	-61	0	0	0	0
Working capital	0	1,090	45,115	5,148	11,120	-1,215
Operating cash flow	22,820	3,889	33,258	12,770	34,907	44,522
Tax paid	0	-1,071	-1,937	0	-544	-3,064
Capex (less disposals)	0	0	0	-42,000	-49,000	-56,000
Investments	0	0	9,360	0	0	0
Net interest	0	-1,916	-1,383	-8,761	-15,287	-23,384
Net dividends	0	0	0	0	0	0
Residual cash flow	22,820	902	39,297	-37,991	-29,925	-37,926
Equity issued	0	0	3,884	10,000	0	0
Change in net borrowing	-6,078	-5,321	8,881	27,991	29,925	37,926
Adjustments	0	0	0	0	0	0
Total financing	-6,078	-5,321	12,765	37,991	29,925	37,926

Source: Company data, Longspur Research estimates

KEY POINTS

- ReFuels is operating cashflow positive throughout
- Working capital movement in 2024 driven by movement from pro-forma historic accounts to post consolidation figures
- Small equity raise in 2025 to support a rapid station roll out, assuming future stations are developed using 70:30 debt to equity split
- Operating loss in 2024 driven by low RTFC Price

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