

## Corporate

 Current price **0.5p**

 Sector **Alternative Energy**

 Code **AEG.L**

 AIM **AIM**

### Share Performance



Source: Thomson Reuters, Allenby Capital

### Share Data

 Market Cap (£m) **7.7**

 Shares in issue (m) **1,539.2**

52 weeks High Low

**1.12p 0.33p**

 Financial year end **December**

Source: Company Data, Allenby Capital

### Key Shareholders

 Gravendonck Prvt Foundation **15.47%**

 Premier Miton **5.41%**

 Interactive Investor Services **5.01%**

 Renewable Logistics Systems **4.21%**

Source: Company Data, Allenby Capital

**Ian Jermin**

0203 328 5664

i.jermin@allenbycapital.com

**www.allenbycapital.com**

## Active Energy Group plc (AEG.L)

### Revenues grow significantly – more to come in H2

Active Energy Group (AEG) reported revenue of almost \$0.5m (H1 2019: \$0.1m) generated from just its lumber activities and rental income. This is an impressive performance when one considers that the Group did not gain 100% control of the lumber business until April 2020 and consequently revenues largely reflect sales in Q2. Now running a second shift, we expect volumes to rise significantly in H2 and anticipate Group revenues of around \$2.5m for the year to December 2020. 2021 will see a continuation of this trend and in addition some initial revenue from the CoalSwitch™ reference plant. Our current thinking is that 2021 revenues could reach around \$8m based on lumber producing \$6m and CoalSwitch™ c.\$2m. AEG is now gaining significant traction and we expect to see commensurate growth in the share price over the next twelve months.

- Revenues rise to \$0.5m** – AEG reported first half revenues of \$0.5m (H1 2019: \$0.2m) driven by its lumber activities (c.\$0.4m) and rental income (c.\$0.1m) and, as noted above, those lumber revenues were largely generated in Q2 when the Group took 100% control of the business and ramped up production.
- CoalSwitch™ progress continues** – Progress on the CoalSwitch™ project continues, albeit more slowly than we had anticipated having been severely affected by COVID-19 delays. However, with the air permit now received, plant design and engineering can be completed. Unfortunately, the Group is still not able to provide a definitive timetable for the plant given continued COVID-19 delays to the supply chain and logistics. Nevertheless, we remain comfortable with our belief that the plant will contribute to revenue in 2021.
- Licensing remains a potential third income stream** – In November 2019, AEG granted the first CoalSwitch™ licence to RMDE for prospective projects in Canada and received a \$1.8m licence fee. RMDE and AEG continue to work together to commercialise the project from which AEG will receive royalty payments of \$5/tonne on all licensed product that is produced. We are confident that ongoing talks with other potential licensees will result in further income from this area of activity in the future.
- Detailed forecasts to be provided in due course** - At this stage, with the uncertainty surrounding COVID-19 and further potential lockdowns, it would be disingenuous to offer definitive and detailed forecasts for 2020 and 2021. However, we do anticipate introducing these forecasts in due course when visibility and timing become clearer.
- Revenue projections** - For the present we offer investors our revenue projections for 2020 and 2021. Revenues in 2019 were \$1.9m, \$1.8m of which related to the licensing income from RMDE. Thus, our projections for 2020 of \$2.5m reflect growth effectively from a zero starting position while an estimate of \$8m for 2021 suggests further significant growth in the lumber business together with an initial contribution from CoalSwitch™.

Year End: December			
(US\$ m)	2019A	2020P	2021P
REVENUE	1.896	2.500	8.000
UNDERLYING EBITDA*	(0.298)	-	-
UNDERLYING LOSS BEFORE TAX*	(2.976)	-	-
NET (DEBT)	(19.482)	-	-

Source: Active Energy Group plc. Allenby Capital act as joint broker to Active Energy Group plc. \* stated before share based charges

Please refer to the last page of this communication for all required disclosures and risk warnings.

## Background and activities

The Active Energy Group (AEG) corporate structure consists of three silos which combine to offer a complete Forest to Energy supply chain providing the assets necessary to develop AEG into a leading renewable biomass energy company specialising in second generation biomass products and the ability to license its proprietary technology to third parties.

Its activities are conducted from a freehold industrial site in Lumberton, North Carolina, comprising 415,000 ft<sup>2</sup> of covered factory space and around 151 acres of surrounding land.

### THE LUMBERTON HUB



Source: AEG

#### Lumberton Operations

These are based at the Group's commercial hub in Lumberton and encompass Active Energy Renewable Power, an operating entity which is responsible for the transactional businesses of CoalSwitch™ and the lumber activities at the Lumberton site and Lumberton Energy Holdings which owns the freehold of the site.

**Pellet & IP Technologies** – Active Energy Group plc is the legal entity holding the global IP to the CoalSwitch™ technology and the right to award biomass manufacturing licences. Advanced Biomass Solutions (ABS), a wholly owned subsidiary of AEG, owns the assets at the Lumberton site.

**Forestry & Timberlands Operations** – AEG, through Timberlands International and AE Ukraine, hold timber rights in Newfoundland & Labrador and Ukraine respectively and management is looking at ways of developing business opportunities from these valuable timberland assets.

## Interim results

### EXHIBIT 1: STATUTORY INTERIM RESULTS SUMMARY

	H1 2020	% change	H1 2019	2019
	\$		\$	\$
<b>Revenue</b>	<b>499,893</b>	<b>400.7%</b>	<b>99,830</b>	<b>1,895,972</b>
Gross profit	357,835	258.4%	99,830	1,895,972
GP margin	71.6%		100.0%	100.0%
Admin costs	-1,080,087	-34.2%	-1,642,416	-2,779,473
<b>Operating loss</b>	<b>-722,252</b>	<b>-53.2%</b>	<b>-1,542,586</b>	<b>-883,501</b>
Finance (costs)/income	111,844	-138.5%	-290,387	-2,461,376
<b>Pre-tax loss</b>	<b>-610,408</b>	<b>-66.7%</b>	<b>-1,832,973</b>	<b>-3,344,877</b>
Tax	16,494	459.9%	2,946	874,655
Post-tax loss	-593,914	-67.5%	-1,830,027	-2,470,222
EPS (p)	-0.05	-66.7%	-0.15	-0.21

Source: Active Energy Group plc

### Revenue growth mainly attributable to Q2 ramp up in lumber production

Revenue growth of 400% to \$0.5m, was mainly attributable to a Q2 ramp up in production following the acquisition of 100% of Renewable Energy Systems (the Group's lumber business located in Lumberton N.C.) from its joint venture partner Renewable Logistics Systems resulting in AEG's subsidiary, Active Energy Renewable Power, now owning 100% of the operation.

The Group achieved a gross margin on sales of 71.6% leading to a gross profit of \$358k. This margin is inflated by rental income of \$117k which is in effect 100% margin business and stripping this out of the revenue and gross profit lines results in a lumber margin of 63%.

Administration costs reduced by 34% yoy to \$1m, the reduction being in part due to the comparative period's costs being inflated by the loss on disposal of certain fixed assets. Monthly costs are expected to rise in H2 reflecting the fact that the business is now 100% owned.

Finance income was \$112k against a cost of \$290k in the comparative period. This swing was the result of FX gains of \$1.2m and interest capitalised to tangible and intangible fixed assets exceeding the cost of servicing the Group's Convertible Loan Notes (CLNs).

### Net debt at period end of \$19.5m but stated before £0.8m raise from CLNs...

Excluding IFRS 16 leases, net debt stood at \$19.5m but is stated before the cash received by the Group in July 2020 from the issue of £0.8m of additional CLNs. This additional cash is to be used to fund the development of AEG's wood processing and export activities in Lumberton.

### ...and an equity placing raising £1.5m

In addition, in September 2020 the Group received approximately £1.5m cash through a placing of ordinary shares which will be used to fund the construction of the 5 tonne/hour CoalSwitch™ reference plant.

Finally in September 2020, the Company effected a share reorganisation of one new share of 0.01p and a deferred share of 0.9p for every ordinary share of 0.1p then held. It is the intention of the Group in due course to re-purchase the deferred shares for an aggregate consideration of £1m and then cancel them.

## Operational developments

### EXHIBIT 1: SEGMENTATION OF REVENUE

Years to December 2019	H1 A	H2 A	Year A
	US\$	US\$	US\$
Wood processing & export	0	0	0
Forestry & Natural resources	0	0	0
CoalSwitch	99,830	1,617,846	1,717,676
Rental income	39,772	138,524	178,296
<b>Total</b>	<b>139,602</b>	<b>1,756,370</b>	<b>1,895,972</b>

Years to December 2020	H1	H2 P	Year P
	US\$	US\$	US\$
Wood processing & export	382,659	1,917,341	2,300,000
Forestry & Natural resources	0	0	0
CoalSwitch	0	0	0
Rental income	117,234	82,766	200,000
<b>Total</b>	<b>499,893</b>	<b>2,000,107</b>	<b>2,500,000</b>

Source: Active Energy Group; Allenby Capital

### Lumber activities exempted under local COVID-19 ordinances

#### Lumber operations

As anticipated, the lumber operations at the Group's Lumberton site hub have increased in scale throughout the half year period in spite of COVID-19 related challenges. This is partly a reflection of the fact that the lumber activities were exempted under the relevant North Carolina COVID-19 ordinances.

Activities continue to include the production of rail ties, lumber and woodchip for sale to domestic customers in the US and the export of saw logs to international customers, principally in South-East Asia.

### Moved to a second shift in September 2020...

Due to heavy demand the Group had previously indicated a requirement to operate a second production shift at Lumberton and in September 2020 this second shift commenced. This will enable production to increase to previously indicated levels, including the export of up to 100 containers of saw logs per month and the delivery of circa 1,500 rail ties per week.

### ...which is expected to result in monthly revenues in excess of \$400k/month

This is anticipated to result in monthly revenues in excess of US\$400,000 per month or a run rate of over \$4.8m per annum. Furthermore, AEG is aiming for the lumber operations to operate at breakeven before the end of 2020. The Company is actively working with several new customers for both saw logs and other lumber products which augurs well for the business moving comfortably into profit in 2021.

### Air quality permit received in August 2020

#### CoalSwitch™

The long-awaited Construction and Air Permit from the NC Division of Air Quality for the Company's 5tph CoalSwitch™ reference plant at Lumberton was received in August 2020 having been delayed by the COVID-19 lockdown.

AEG can now move ahead and complete the engineering process on the equipment included in the plant and finalise operational planning in accordance with the terms of the Permit.

### COVID-19 still causing delays

Unfortunately, given current COVID-19 operating conditions, the Group is not able to provide a definitive timetable for the plant's construction at this time and currently expects that it is most likely that the plant will commence operations during the first half of 2021. However, we still believe once everything is in place that construction will take around three to four months to complete.

**RMDE project making good progress with AEG in active discussions with other potential partners**

In November 2019, AEG granted the first CoalSwitch™ licence to RMDE for its forthcoming projects in Alberta and British Columbia. The prospective 25tph plant in Alberta is progressing well and good progress is being made in the plant and engineering design. In addition, AEG is currently working with a number of international prospective partners which wish to establish CoalSwitch™ production facilities in various territories.

**Forestry & Timberlands Operations**

AEG has been re-examining the how to better exploit its existing assets in Newfoundland and has had conversations with the Ministry of Forestry and Fisheries in regard to AEG's existing timber permits and appointed new advisers to move the business opportunity forward. Its recent experience in North Carolina should provide an important platform for a revised business opportunity in Newfoundland and the Group hopes to announce further developments in the coming months.

## Conclusion

### Lumber activities slated to reach breakeven before end 2020

AEG continues to make substantial and encouraging progress in its now 100%-owned lumber activities and we foresee continued significant growth in this business for the remainder of 2020 and throughout 2021 as domestic and export volumes are ramped up. We are also encouraged by the fact that management believes this business will achieve breakeven before the end of 2020.

### CoalSwitch™ should contribute to Group revenues in 2021

It is disappointing that CoalSwitch™ had experienced delays in its permitting endeavours in North Carolina but at least that has now been concluded satisfactorily and engineering and plant design can move ahead, The Group is now navigating through additional COVID-19 disruption related to its logistics and supply chain but we remain confident that it will be shipping product and generating revenue in 2021 which is important given the significant interest that the Group is receiving from potential customers.

### Potential for more licensing deals but not factored into our projections

Further licensing of the technology is another more lumpy but nevertheless important potential revenue stream and again we believe that this could be a contributor to 2021 revenues although we have factored nothing in from this area of business either from licensing income or royalties.

### Debt levels still high

The remaining primary issue is the level of net debt within the business which is mainly related to the Convertible Loan Notes (CLNs) and the cash needed to service the notes (c.\$1.6m per annum). A significant element of the CLNs are convertible at 1p and when the share price exceeds this level, we would expect some bondholders to convert into ordinary shares thus reducing the debt servicing burden.

### Significant potential

We are very encouraged by the progress being made by the new Board and anticipate all of AEG's operations contribution to a strong 2021 performance which we are confident will be reflected in a positive share price performance.

## Financial summary (historic)

<b>INCOME STATEMENT</b>			
	\$m	\$m	\$m
Y/E December	FY 2017A	FY 2018A	FY 2019A
Revenue	0.000	0.195	1.896
Gross profit	0.000	0.195	1.896
Total operating costs	-2.740	-2.087	-2.411
Underlying EBITDA	-2.415	-1.848	-0.298
Interest	-3.031	-0.407	-2.461
Underlying (Loss)/profit before tax	-5.771	-2.299	-2.976
Net Profit/(Loss)	-5.415	-0.953	-2.101
Weighted Average Shares	829.91	1,013.58	1,201.91
Weighted Average Shares (fully diluted)	829.91	1013.58	2118.45
Underlying EPS (basic) (pence)	-0.65	-0.09	-0.17
<b>CASH FLOW</b>			
	\$m	\$m	\$m
Y/E December	FY 2017A	FY 2018A	FY 2019A
Net cash outflow from operating activities	-5.828	-1.515	1.676
Net cash outflow from investing activities	-5.140	-2.763	-1.913
Net cash inflow/(outflow) from financing activities	8.987	4.456	0.337
<b>Cash at end of the year</b>	<b>0.142</b>	<b>0.299</b>	<b>0.397</b>
<b>BALANCE SHEET</b>			
	\$m	\$m	\$m
Y/E December	FY 2017A	FY 2018A	FY 2019A
<b>Assets</b>			
Non-current assets	12.633	14.588	19.883
Current assets (excluding cash)	0.538	1.704	1.147
Cash	0.142	0.299	0.397
<b>Total Assets</b>	<b>13.314</b>	<b>16.591</b>	<b>21.427</b>
<b>Liabilities</b>			
Current liabilities	-2.034	-4.179	-2.500
Non-current liabilities	-13.814	-11.914	-18.555
<b>Total Liabilities</b>	<b>-15.849</b>	<b>-16.094</b>	<b>-21.055</b>
<b>Net Assets</b>	<b>-2.535</b>	<b>0.497</b>	<b>0.372</b>
<b>Net current assets</b>	<b>-1.354</b>	<b>-2.176</b>	<b>-0.956</b>
<b>Net (debt)/cash</b>	<b>-13.082</b>	<b>-12.702</b>	<b>-17.902</b>

Source: Active Energy Group plc

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**Allenby Capital, 5 St Helen’s Place London EC3A 6AB, +44 (0)20 3328 5656, [www.allenbycapital.com](http://www.allenbycapital.com)**