

Corporate

Current price **0.775p**

Sector **Alternative Energy**

Code **AEG.L**

AIM **AIM**

Share Performance



Source: Thomson Reuters, Allenby Capital

Share Data

Market Cap (£m) **9.9**

Shares in issue (m) **1,273.5**

52 weeks High Low
0.85p 0.33p

Financial year end **December**

Source: Company Data, Allenby Capital

Key Shareholders

Gravendonck Prvt Foundation **18.46%**

R G Spinks **4.50%**

R M Derrickson **3.12%**

InterTrader Ltd **3.05%**

Source: Company Data, Allenby Capital

Ian Jermin

0203 328 5664

i.jermin@allenbycapital.com

www.allenbycapital.com

Active Energy Group plc (AEG.L)

Issue of £0.8m CLN to accelerate lumber production

Active Energy Group (AEG) has raised £0.8m via the subscription of convertible loan notes by new US and existing European investors. The funds will be immediately deployed to accelerate the expansion of the Group's lumber activities in North Carolina to satisfy increasing demand. It is anticipated that a second shift at the sawmill will begin in around three weeks' time and will facilitate an increase in production of rail ties and lumber while also satisfying increasing demand for saw log exports to SE Asia. Depending on the product mix, the increase in production capacity has the potential to generate revenues of up to \$10m creating a valuable platform and solid revenue base with the benefits of the 2nd generation, drop-in biomass CoalSwitch™ fuel still to come.

- Growth in lumber activities following consolidation of operations** – In April 2020 AEG secured 100% control and ownership of Active Energy Renewable Power (AERP) which had previously been operated as a joint venture. Since then the output of rail ties, lumber and woodchip for the US domestic market has been accelerating to satisfy increasing demand. In addition, the export of saw logs to the SE Asian market has commenced and a substantial new contract has recently been won.
- Move to a second shift to increase production capacity** – Production is already running at around 80% of the sawmill's capacity on a single shift basis and it is expected that the facility will be operating at full capacity in the coming weeks. Equipment automation and changes in wood handling techniques are expected to increase capacity but not to the extent required or desired by management. Thus, to help satisfy rising demand, AEG believes that now is the appropriate time to establish a second shift which is expected to start by the middle of July. This will effectively double sales capacity at the sawmill during Q3 2020.
- Production capacity to rise to c.\$10m** – The rail tie, lumber and woodchip operations will benefit immediately from the move to a second shift (16 hours per day/5 days per week) and already has domestic customers willing to take as much product as AERP can produce. This would result in a potential revenue run rate of around \$4m. The export of saw logs commenced from a low base in May 2020 and has since been steadily ramping up. A new contract has been signed by a SE Asian customer and deliveries have already commenced. AERP is expected to ship up to 8,000 tonnes per month FOB from ports near its Lumberton hub and this business has the potential to deliver revenues of up to \$6m per annum.
- AEG is now coming of age** – After numerous delays and disappointments under previous management, AEG has now established a clear runway to the generation of significant revenue streams **and with the benefits of CoalSwitch™ still to come!**

Year End: December			
(US\$ m)	2017	2018	2019
REVENUE	-	0.195	1.896
UNDERLYING EBITDA	(2.415)	(1.848)	(0.298)
UNDERLYING LOSS BEFORE TAX	(5.771)	(2.299)	(2.976)
NET (DEBT)	(13.082)	(12.702)	(17.902)

Source: Active Energy Group plc. Allenby Capital act as joint broker to Active Energy Group plc

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

Fund raise and trading update

Issue of CLNs to raise £0.8m

Fund raise

AEG has raised £0.8m through the issue of Convertible Loan Notes (Series B CLNs). These CLN will rank *pari passu* to existing bonds and have a conversion price of 1p, a maturity date of 12 March 2022 and accrues interest at 8% per annum. The CLNs are listed on the International Stock Exchange and the funds are expected to be received by the Company by the end of June 2020. This brings the total value of CLNs on AEG's balance sheet to £17.2m.

Proceeds for expansion of lumber activities and for working capital

Use of proceeds

AEG will use the proceeds to increase lumber production capacity at its Lumberton hub in North Carolina where it recently took full control of AERP, the operating company which was previously run as a joint venture. The funds will also provide AEG with additional working capital to deploy new personnel crews and equipment on site and to secure additional feedstock.

Lumber activities enjoying rising demand...

Expansion of lumber activities

As described in our initiation note (1 June 2020)¹ the lumber activities consist of the manufacture and production of rail ties (railway sleepers), board feet and woodchip to the US domestic market and the export of saw logs to the SE Asian market. First revenues from the lumber operations commenced in Q4 2019 and have met with significant levels of interest from customers and demand is rising rapidly.

...but facility running close to capacity

Despite Covid-19, demand and production has been increasing through 2020 to date and production has now reached 60-80% of sawmill capacity, on a single shift basis. Current weekly production is as follows:

- 850-950 rail ties
- 25,000-30,000 board feet of lumber
- >200 tonnes of woodchip

Management anticipates the sawmill operating at full capacity in the coming weeks and has consequently decided to increase production capacity further. Capacity has already been enhanced through changes to wood handling techniques and equipment automation but this on its own will not be sufficient to accommodate increasing demand from customers who are willing to take all that AERP can produce.

Establishment of a second shift from middle of July

Consequently, AERP will establishment a second shift which should allow the facility to operate 16 hours per day/ 5 days per week. The training of core personnel for a 2nd production shift is now in progress with additional hiring planned for the end of June 2020. Management is aiming to start the second shift at the sawmill by the middle of July 2020, effectively enabling production and sales capacity to double during Q3 2020.

New contract for up to 8,000 tonnes of saw logs per month FOB

The export of saw logs to SE Asia commenced in May 2020 with initial orders of around 1,000 tonnes per month and AERP has been able to establish itself quickly as an effective and reliable supplier. Demand has increased and a contract with a new customer for the delivery of pine saw logs has now commenced.

Under the agreement, AERP is expected to ship up to 8,000 tonnes of saw logs per month from ports near its facility in Lumberton, namely Wilmington, NC and Intermodal

¹ <http://www.allenbycapital.com/research/research-aeg.html>

Container Port of Dillon SC. All orders are FOB meaning that AERP does not incur shipping costs, purely the cost of transportation to the dock.

The increase in production at Lumberton also has the added benefit of increasing the accumulation of waste wood feedstock which will be used for the eventual production of CoalSwitch™.

Management is also considering other complementary opportunities related to the current lumber activities which are aimed at accelerating AERP's growth via both the expansion of the current operations coupled with new opportunities beyond Lumberton.

CoalSwitch™ permit meeting closes on 26 June

CoalSwitch™

Preparation work toward the production and manufacture of biomass pelletised fuels utilising the existing CoalSwitch™ technologies is continuing while the Company awaits the outcome of the Permit award. As a reminder the online event for public comments on the construction and air permit was postponed to the 22 June with the public comment period closing on 26 June 2020.

Potential revenue streams

We are still not providing forecasts for AEG but the Group is developing its activities to a stage whereby we should be in a position to offer forecasts for FY2021 and 2022, possibly post the interim results.

Creating an effective runway for the establishment of meaningful revenues

However, depending on the product mix, we believe that AEG's expanded lumber activities have the potential to generate revenues of up to c.\$10m creating a valuable platform and solid revenue base with the benefits of the 2nd generation, drop-in biomass CoalSwitch™ fuel still to come which could also generate revenues of around \$6m alone.

Thus, it is clear that AEG is establishing an effective production runway that should ultimately deliver meaningful revenues.

Financial summary (historic)

INCOME STATEMENT			
	\$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
CASH FLOW			
	\$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
Cash at end of the year	0.142	0.299	0.397
BALANCE SHEET			
	\$m	\$m	\$m
Y/E December	FY 2017A	FY 2018A	FY 2019A
Assets			
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
Total Assets	13.314	16.591	21.427
Liabilities			
Current liabilities	-2.034	-4.179	-2.500
Non-current liabilities	-13.814	-11.914	-18.555
Total Liabilities	-15.849	-16.094	-21.055
Net Assets	-2.535	0.497	0.372
Net current assets	-1.354	-2.176	-0.956
Net (debt)/cash	-13.082	-12.702	-17.902

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