

13 August 2024

Fluence Corporation

The pipeline is being converted

Fluence Corporation (ASX:FLC) specialises in the delivery of water and wastewater solutions in industrial, municipal and commercial industries across the globe. The company has announced that it has secured a US\$7.1m contract to provide a Sea Water Reverse Osmosis (SWRO) project for Stereau on Mayotte (Stereau), a French archipelago in the Indian Ocean. The contract will commence immediately and is expected to be completed by calendar year-end 2025. This material project for the Municipal division (MWW) is complemented by a US\$1.5m contract win in the Industrial Wastewater & Biogas division (IWB) for a food processor in the US. These are significant wins and we believe are further validation of the strategy to transition the business towards recurring revenue and higher-margin SPS projects (Smart Product Solutions). Part of that strategy involves a push into the North American market, which is now gaining traction and building momentum. When combined with other recent successful tenders the new orders secured in the first 6 weeks of the current quarter total ~US\$12m. In its recent update on performance for the June quarter (Q2 24), management guided to an expectation of upcoming success in pipeline conversion. These new contracts validate those comments and give us significant confidence that the FY24 revenue guidance of US\$70-75m is well within reach and that the overall strategy is proving up. We retain our existing forecasts and DCF-based valuation of \$0.23/share.

Business model

Fluence is a diversified business, by product, customer profile and geography, and derives revenue from the design and sale of equipment solutions for water and wastewater treatment in municipal, industrial and commercial settings. This is complemented by the ongoing provision of parts and service, and operation and maintenance contracts.

Strong start to 2H24

The announcement confirms that FLC is accelerating the conversion of the large pipeline of opportunities it has been harvesting over the past 18 months. The lead times in securing contracts can vary widely, but the recent success is a material validation of the group's ability to execute and gives us confidence that further positive contract news will continue to flow. In the recent June update management guided to a sales pipeline exceeding US\$1b, and an expectation of US\$50-60m of new orders to be secured in the current half to December 2024. Management also spoke to a secured contract backlog of US\$97m, of which US\$39m will be recognised in 2H24. This combination of factors gives us confidence that the 2H24 revenue of ~US\$50m required to meet revenue guidance is increasingly comfortable and will position the business with momentum and upside potential into FY25 (note Calendar Year end). The nature of the recent contract wins, being largely Smart Product Solution (SPS) projects, also validates the margin expansion story. Historically, FLC revenue has been at times dominated by low-margin large engineering and construction projects (for example, the Ivory Coast project), but under the new strategy the company says it will pursue a more diversified order book containing gross margins of ~30%+, which is double those of the legacy projects.

Base-case DCF valuation is \$0.23/share

RaaS forecasts remain unchanged and our discounted cash-flow (DCF) valuation is retained at \$0.23/share. All forecasts and reported financials are in US\$, so we have adjusted the DCF valuation and all per-share metrics at an A\$/US\$ exchange rate of US\$0.65. A full breakdown of our valuation is available in our [12 August](#) report. Our valuation represents ~130% upside potential from the current share price.

Historical earnings and RaaS Research Group estimates (in US\$m). Per-share metrics adjusted to A\$.

Year end	Revenue	Gross profit	EBITDA adj.*	NPAT adj.	EPS adj. (c)	EV/Sales (x)	EV/EBITDA (x)	PER (x)
06/22a	116.3	26.8	0.5	(18.8)	(1.9)	0.4	83.9	n/a
06/23a	68.8	17.8	0.2	(18.1)	(1.7)	0.5	208.0	n/a
06/24f	69.4	19.7	(0.4)	(4.8)	(0.4)	1.1	n/a	n/a
06/25f	113.6	31.7	7.7	3.0	0.5	0.7	9.8	22.2

Source: Company data; RaaS Research Group estimates for FY24f-FY25f; Adjusted for one-time and non-cash items

Share Details

ASX code	FLC
Share price (12-Aug)	\$0.10
Market capitalisation	\$107.6M
Shares on issue	1,076M
Net cash at 30-Jun-2024	US\$7.8M
Free float	~59%

Share Price Performance (12-months)



Upside Case

- New contract win-rate ahead of forecasts
- The emergence of a clear BOO model backed by contract wins
- M&A opportunities

Downside Case

- Failure or delays in conversion of pipeline
- Margin expansion story doesn't play out
- Further Ivory Coast delays

Catalysts

- Strong H2 FY24 contract win-rate
- Proof of strong US traction
- Ongoing evidence of margin expansion story

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FINANCIAL SERVICES GUIDE

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