

Provaris Energy

MOU with Total Eren is pivotal endorsement

The memorandum of understanding (MOU) signed with energy heavyweight Total Eren gives real credibility to Provaris Energy's compressed green hydrogen transportation solution and may also lead to funding options that make it a reality. The timing of the MOU is perfect as it comes at a time when the EU is introducing initiatives and investment to accelerate the introduction of green hydrogen into the energy mix, to improve energy reliability and push its zero-carbon agenda. Approval for construction of vessels could be the next key announcement that makes Provaris the genuine first mover in the space.

Year end	Revenue (A\$m)	PBT* (A\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
06/21	0.2	(3.1)	(0.7)	0.0	N/A	N/A
06/22	0.4	(6.8)	(1.3)	0.0	N/A	N/A
06/23e	0.3	(9.7)	(1.7)	0.0	N/A	N/A
06/24e	0.3	(10.2)	(1.6)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Credibility of compression solution underpinned

On 15 September, Provaris Energy announced the signing of a new MOU with Total Eren, a France-based renewable energy independent power producer (IPP). The agreement will see the two parties co-operate on the development of solutions to transport green hydrogen (H₂) to Asia and Europe utilising Provaris Energy's compressed H₂ and transport solution. Specifically, the agreement will identify and assess opportunities for the importation of green H₂ into Europe and Asia utilising Provaris's GH₂ Carriers. The two entities have already identified project opportunities, and terms and participation will be agreed in future. This is likely to include funding arrangements.

EU is building the mechanism to drive H2 adoption

Provaris's initial H₂ projects are in Australia, but this MOU brings the possibility that H₂ projects being developed to supply Europe will become a reality sooner rather than later. The war in the Ukraine has pushed the EU to reduce reliance on Russian gas via its [REPowerEU plan](#) and the announcement of the creation of a European Hydrogen Bank, with access to a €3bn budget to guarantee the purchase of H₂, will help underpin proposed clean H₂ projects, such as Total Eren's project in Morocco, that can then feed clean H₂ via major import hubs like Rotterdam, and into the European Hydrogen Backbone network. Further assistance in the development of a clean H₂ market came when the EU voted to loosen the 'additionality' rules and passed binding targets for renewable H₂.

Valuation: MOU confirms credibility

This MOU confirms credibility and lends support to our modelling, which produced internal rates of return (IRR) of 9.7–18.7% from a range of scenarios and vessel sizes. Our assumptions remain relevant and are unchanged. Successful offtake discussions would be an opportunity to revisit our IRR assumptions, and are likely given the exponential growth in demand for green hydrogen forecast by the IEA.

Project announcements

Industrial support services

20 September 2022

Price **A\$0.06**

Market cap **A\$35m**

A\$1.4/US\$

Net cash (A\$m) at 30 June 2022 11.6

Shares in issue 548.3m

Free float 100%

Code PV1

Primary exchange ASX

Secondary exchange FRA

Share price performance



% 1m 3m 12m

Abs (34.4) 43.2 (22.2)

Rel (local) (30.5) 37.3 (13.8)

52-week high/low A\$0.16 A\$0.04

Business description

Provaris Energy is becoming a vertically integrated green hydrogen producer and supplier, combining production and compressed hydrogen shipping solutions for transporting energy from Australia to regional markets in South-East Asia and Europe.

Next events

Interim results February 2023

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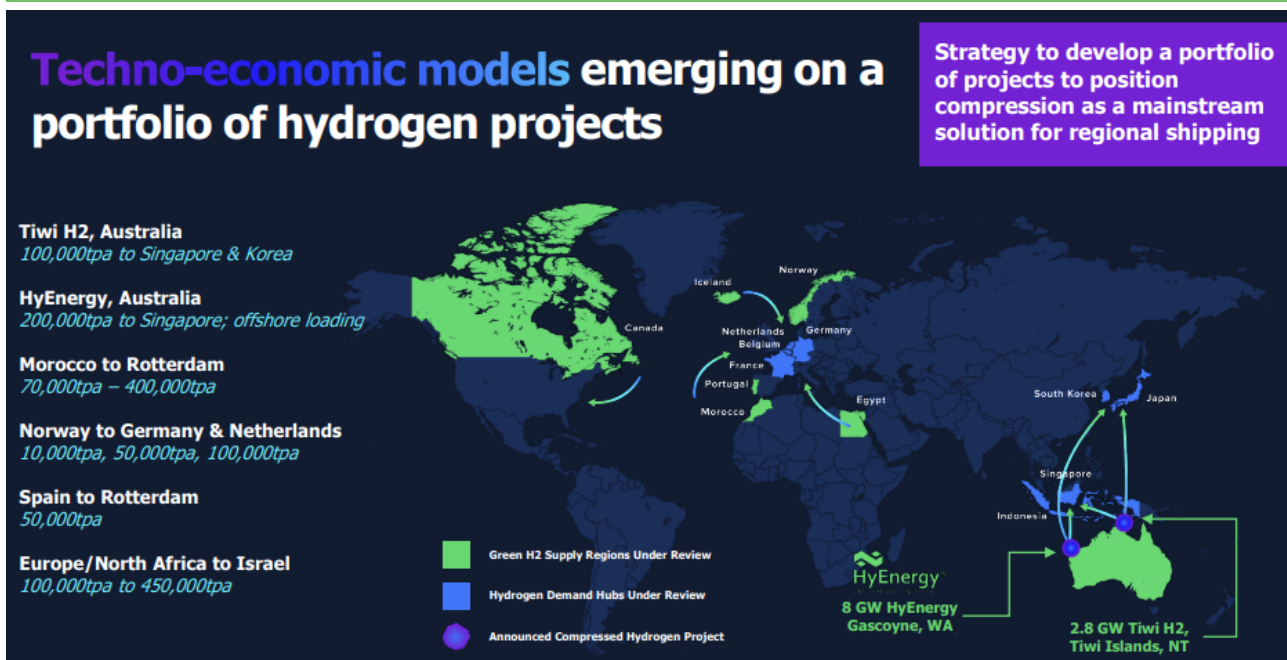
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Next milestone likely to be vessel class approvals

The increased credibility attached to Provaris’s H₂ transport solution by this MOU is clearly very important. The next important step is likely to be a Class Approval from the American Bureau of Shipping (ABS), in the shape of an Approval for Construction for the novel H2Neo vessel. It is hoped that this authority will be forthcoming before the end of 2022, which would allow Provaris to engage in detailed discussions with shipyards that will initially focus on constructability and price with a view to first voyages in early 2027. These are likely to coincide with the first green H₂ volumes from the numerous clean energy plants being planned. Some of these projects and trade routes are highlighted in the chart below.

Exhibit 1: Summary of Provaris Energy’s existing projects and areas of potential expansion



Source: Provaris Energy

We have updated our estimates following the release of FY22 results. The company ended the year with a comfortable net cash position of A\$11.6m.

Exhibit 2: Financial summary

	A\$m	2020	2021	2022	2023e	2024e
June year end		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		1.5	0.2	0.4	0.3	0.3
Profit Before Tax (norm)		(2.9)	(3.1)	(6.8)	(9.7)	(10.2)
Profit Before Tax (reported)		(2.9)	(3.1)	(6.8)	(9.7)	(10.2)
Reported tax		0.0	0.0	0.0	0.0	0.0
Profit After Tax (norm)		(2.9)	(3.1)	(6.8)	(9.7)	(10.2)
Profit After Tax (reported)		(2.9)	(3.1)	(6.8)	(9.7)	(10.2)
Minority interests		0.0	0.0	0.0	0.0	0.0
Net income (normalised)		(2.9)	(3.1)	(6.8)	(9.7)	(10.2)
Net income (reported)		(2.9)	(3.1)	(6.8)	(9.7)	(10.2)
Basic average number of shares outstanding (m)		393.5	417.3	512.9	579.5	648
EPS - normalised (c)		(0.7)	(0.7)	(1.3)	(1.7)	(1.57)
Revenue growth (%)		34.9	(84.0)	53.4	(29.2)	0.0
BALANCE SHEET						
Fixed Assets		6.3	5.8	5.4	5.0	4.6
Intangible Assets		6.2	5.8	5.4	5.0	4.6
Tangible Assets		0.1	0.0	0.0	0.0	0.0
Investments & other		0.0	0.0	0.0	0.0	0.0
Current Assets		3.2	6.7	12.0	8.1	5.6
Stocks		0.0	0.0	0.0	0.0	0.0
Debtors		0.1	0.1	0.3	0.3	0.3
Cash & cash equivalents		3.1	6.6	11.6	7.7	5.3
Other		0.0	0.0	0.0	0.0	0.0
Current Liabilities		(0.3)	(0.2)	(0.8)	(0.8)	(0.8)
Creditors		(0.2)	(0.2)	(0.8)	(0.8)	(0.8)
Other		(0.1)	(0.0)	(0.1)	(0.1)	(0.1)
Long Term Liabilities		0.0	0.0	0.0	0.0	0.0
Long term borrowings		0.0	0.0	0.0	0.0	0.0
Other long term liabilities		0.0	0.0	0.0	0.0	0.0
Net Assets		9.2	12.3	16.5	12.2	9.4
Minority interests		0.0	0.0	0.0	0.0	0.0
Shareholders' equity		9.2	12.3	16.5	12.2	9.4
CASH FLOW						
Op Cash Flow before WC and tax		0.0	0.0	0.0	0.0	0.0
Receipts from the ATO (Covid-19 cash boost)		0.1	0.1	0.0	0.0	0.0
Payments to suppliers and employees		(2.9)	(2.3)	(3.1)	(3.5)	(3.8)
Research and development		(0.1)	(0.0)	0.0	(3.0)	(3.0)
Project development		(1.0)	(0.5)	(1.9)	(2.5)	(2.8)
Interest received		0.0	0.0	0.0	0.0	0.0
Interest paid for lease liabilities		(0.0)	(0.0)	0.0	(0.0)	1.0
Research and development tax concession rebate		1.4	0.2	0.0	0.0	0.0
WA Renewable Hydrogen Fund grant		0.0	0.0	0.1	0.3	0.3
Working capital		0.0	0.0	0.0	0.0	0.0
Tax		0.0	0.0	0.0	0.0	0.0
Net operating cash flow		(2.5)	(2.6)	(4.8)	(8.8)	(8.3)
Capex		0.0	0.0	0.0	0.0	0.0
Acquisitions/disposals		0.0	0.0	0.0	0.0	0.0
Equity financing		3.5	6.3	10.5	5.0	6.0
Dividends		0.0	0.0	0.0	0.0	0.0
Other		(0.3)	(0.3)	(0.7)	(0.2)	(0.2)
Net Cash Flow		0.7	3.4	5.1	(3.9)	(2.4)
Opening net debt/(cash)		(2.4)	(3.1)	(6.6)	(11.6)	(7.7)
FX		0.0	0.0	0.0	0.0	0.0
Other non-cash movements		0.0	0.0	0.0	0.0	0.0
Closing net debt/(cash)		(3.1)	(6.6)	(11.6)	(7.7)	(5.3)

Source: Company accounts, Edison Investment Research

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