

Greentech Energy Systems A/S

OMX Nordic Exchange Copenhagen: GES

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Closing share price on 28th October:
DKK 25.00

Market Cap
DKK 1,203m

Bloomberg
GES DC

Price target
DKK 37

Project financing “finally” in place – when operational?

In May the sale of 50% of the Monte Grighine (MG) project was deemed necessary as Greentech's liquidity situation left the company in a situation where risk of chapter 11 was imminent. Through the sale of 50% of the MG project and subsequent financing of this project we think it is only a matter of time before Greentech is back on track and we can see a 45% upside in the share price.

Greentech received proceeds of EUR 63 million from the sale of 50% of the MG project, of which EUR 47 million will be earmarked to finalise MG. (as part of the deal with EDF Energies Nouvelles). A total of 35 turbines (of 43 in total) have been erected so far. In addition, MG Srl. (50/50 owned by Greentech/EDF EN) has signed a loan agreement totalling EUR 97 million for the MG project. The loan is entered into with a consortium consisting of 6 banks (Natixis S.A – Natixis Lease S.A – Fortis Bank S.A/N.V – Mediocreval S.P.A – Barclays Bank Plc. and Commerzbank AG). A potential issue is that a number of conditions must be met before the company can draw down on the facility. **According to Korral's source from one of the leading banks in the Italian project finance sector this is pretty much standard procedure.** The loan will secure Greentech some EUR 55 million when the conditions are met.

Further, project financing for Minerva Messina (MM) is about to reopen after some adjustments to the loan agreement. We estimate that MM only require EUR 10 million to be finalised. A total of 18 turbines (of 21 in total) have been erected so far. We expect project financing of Cagliari II will follow shortly thereafter. We estimate the need of EUR 20 million to finalise the Cagliari II project and EUR 10 million to finalise the Cagliari III project. After these events, Greentech will have a net cash position of EUR 65 million which we expect to be allocated to develop new projects.

ISIN:	DK0010240514	
Region/Country	Europe/Denmark	
Shares outstanding	48,140,348	
EURO/DKK 7,46		
Year	2009	2010
Revenue	10,700	23,500
EBITDA	9,000	19,800
EPS	NEG.	0.14

Wind farm developer, constructor and operator:
Greentech Energy Systems is a Danish-based energy company, generating and selling electricity from wind farms across Europe

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The history

In May 2009 Greentech announced a strategic partnership with EDF Energies Nouvelles (EDF EN). Greentech sold 50% of Monte Grighine (MG) to EDF, and in addition EDF received an option to acquire a 50% equity stake in Greentech's project pipeline in Italy and Poland when reaching "ready to build" stage. In return Greentech received EUR 63 million in payment from EDF EN.

Upon the signing of the agreement with EDF EN, EUR 47 million was deposited for completion of the MG project, a project which until now has been fully financed through equity. Due to the global financial crisis / credit markets, Greentech has not succeeded raising project financing for MG and Cagliari II. On the 27th October 2009 Greentech finally announced the syndicate consisting of 6 banks which will participate in the financing of MG for EUR 97 million, when a number of Conditions Precedent (CPs) has been met. *In a public statement in the Press from the Greentech Chairman Sven Sigaard the CPs to be met are related to permits and registration. Sigaard expects Greentech to fulfil the terms before end 2009.*

Minerva Messina

Project financing for Minerva Messina is about to be re-opened with the bank consortium involved. Greentech have to pay an additional EUR 1.4 million for the construction work and deposit EUR 2 million as additional collateral. In addition, the loan amount will be reduced by EUR 8 million.

Cagliari II

Regarding the Cagliari II financing, Greentech are in negotiations with WestLB, which financed the Energia Verde project (Cagliari I), and is part of the syndication of the MM project.

It's all about Monte Grighine

Completion of all three projects seems to be depending on the proceeds from the MG financing as the crucial part of the puzzle. We know that 6 banks have already given loan commitments of EUR 97 million. This will secure Greentech net proceeds of around EUR 55 million if we include VAT paid for already paid equipment. We believe the EUR 55 million will be enough to complete the Minerva Messina and Cagliari II projects. The project financing facility for the MM project was established in 2008 but has been suspended since February 2009 due to facility being overdrawn and certain conditions broken. We estimate only EUR 10 million is needed to complete this project. (See above)

Upfront payment in Cagliari II & III

Regarding Cagliari II we know that Greentech has made an agreement with the wind turbine supplier Nordex for delivery of wind turbines for a total of EUR 26.4 million and Greentech has paid EUR 7.9 million in advance. Greentech has also made an agreement with a supplier of electrical works and construction works for EUR 3.9 million. A payment of EUR 2.3 million has been made. Cagliari II has no project financing in place yet which means that EUR 10.9 million (34%) has been financed through equity. According to the latest interim report Greentech plans to complete Cagliari III when the Cagliari II project is finalised. (Cagliari III still awaits the building

Contractual obligations

permission from the municipality, which should be a formality as we see it). In the Cagliari III project Greentech has so far paid EUR 4.5 million out of the total sum of EUR 14.8 million regarding the wind turbines.

Greentech has contractual obligations for around EUR 45 million in Cagliari II & III. If we assume Greentech will be able to secure project financing of 75%, (EUR 34 million) Greentech will achieve a net cash position of around EUR 95 million before completing Cagliari II & III. That leaves EUR 65 million for other projects developments or new business. (See table 1)

Divestment of project

Greentech still intends to develop and build on the Company's competence within construction and operation of wind farms. However, in the longer term Greentech has also announced the possibility of full or partly divestments of its projects. That could, in our opinion be a trigger for the share price since the share price is traded well below NAV.

Solar project as a new Business area?

Greentech stated in the half year report that they would consider participating in a solar energy projects as a new business area. If we look at the lack of success the company has had in controlling the building process within the different wind projects, one could be a little concerned. However, the idea itself makes sense since solar projects could be developed in connection with projects that are related to Greentech existing wind farms. The investors have more than once faced cost-overruns and delays in the different stages of the building process on the wind farms. Perhaps Greentech's solar expansion plans could be carried out in collaboration with an experienced player within the solar energy area?

Heading for a good start in 2010?

The result from 2009 will not be glamorous, but Greentech is in a good position to make 2010 a success. First of all we expect MG, MM and Cagliari II to start producing kWh from the beginning of the 2010. (Under the agreement signed with EDF EN it was determined that EDF EN has the controlling influence in the MG project. The consequence is that Greentech has to recognise the share of profit/loss and equity under associates)

Cagliari III will follow later in 2010. With new loan facilities in place, a new partner in EDF EN and money in the bank Greentech should be in a position to finally become a successful wind operator.

Recommendation

We don't think Greentech should trade lower than the NAV position of DKK 37, which is our 12 month target with an upside of around 45%. The share price could go even higher but Greentech has not delivered so far and with a "new" strategy plan coming up we don't expect investors to reward this in advance.

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Tabel 1

Showing Greentech's project cash development in Monte Grighine, Minerva Messina, Cagliari II and III. The different projects turbine contract and how much Greentech has paid in advance regarding the specific project.

Event	Project cash development	Time frame	Turbine contract ****	Turbines prepaid ****	Electrical work contract ****	Electrical work prepaid ****	Contractual obligation	Prepaid
	TEUR		TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Monte Grighine			97.407	74.824	23.410	13.801	120.817	88.625
Sale of 50% of MG	63.000	2009						
Completion of MG	-47.000	2009						
Loan facility MG *	55.000	2009						
Minerva Messina			51.588	39.060	16.250	12.622	67.838	51.682
Completion of MM	-10.000	2009						
Cagliari II			26.400	7.920	3.925	2.313	30.325	10.233
Completion of Cag II	-20.000	2009						
Loan facility Cag II **	22.000	2010						
Cagliari III			14.850	4.455	0	0	14.850	4.455
Completion of Cag III	-10.000	2010						
Loan facility Cag III **	11.100	2010						
Net cash position	64.100							
Total			190.245	126.259	43.585	28.736	233.830	154.995
<i>* 50% of EUR 97 million plus VAT from already paid equipment</i>								
<i>** Loan facility expectet to be 75% of Contractual obligation</i>								
<i>*** From Greentech's home page</i>								
<i>**** According to annual report 2008</i>								

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The principals and employees of Korral are also current investors into **Greentech Energy Systems A/S**. The research has been carried out using traditional analysis methods and publicly available information sources, in addition to project details provided by Greentech.

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