

Water Tower Research

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Capstone Turbine set for more cash flow stability if it can execute on Energy as a Service (EaaS) strategy, says Water Tower Research

Water Tower Research (WTR) has begun covering energy systems group Capstone Turbine Corporation (NASDAQ:CPST), which the research house reckons, should benefit from businesses now working to lower their carbon footprints.

Capstone describes itself as a world-leading producer of efficient, low-emission, microturbine energy systems, which are already deployed in sectors, ranging from natural resources, renewable energy, and critical power. Its platform can meet carbon dioxide reduction goals with a near-zero emissions profile.

"We believe broader industry trends will continue to favour technologies and services that will help companies reduce their carbon footprint driven by regulation as well as corporate responsibility," said Water Tower analyst Shawn Severson.

Microgrid industry expected to grow

He also noted that groups working in the so-called microgrid sector, namely smaller decentralized versions of a larger power grid, are likely to benefit from this growing industry.

"The global microgrid industry is expected to grow over 10% CAGR between 2020 and 2025 and we expect the industry will continue to benefit from long-term trends," he noted.

The analyst also highlighted that Capstone had taken "aggressive steps" to reduce its operating costs in a bid to make it profitable on a much lower revenue base and has recently hit adjusted earnings before interest tax, depreciation and amortization (EBITDA) break-even. It has also pivoted increasingly over the last 12 months to its energy as a service (EaaS) business, which should lead to more predictable and stable cash flows, despite orders and backlogs varying quarter-to-quarter.

In simple terms, the EaaS part of the Capstone business comprises its fleet of rental products and aftermarket services, which are described as a Factory Protection Plan (FPP).

The latter enables customers to have predictable maintenance costs for up to 20 years and protect them from future cost increases for replacement spare parts, commodity price increases, import tariffs, and interest rate changes.

Severson cited management's full-year 2021 goals of \$10 million-plus of year-on-year adjusted EBITDA improvement, 10MW of rentals, 22% gross margin, 15% of revenue from direct sales, and six inventory turns.

"Delivering on these goals should help to further establish the credibility and ability of the company to deliver on the stated strategy and improve investor confidence," he said.

Cashflow positive

Share Information

Code: WATER

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Website: www.watertowerresearch.com

Company Synopsis:

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"Reaching cash flow positive could help relieve concerns about the need for or the use of proceeds from any future capital requirements as the transition would move from survival capital to growth capital.

"This would also help to solidify the financial health of the company from a customer perspective and management believes this would meaningfully reduce the perceived risk of working with Capstone on large scale deployments," he added.

Capstone shares were up a shade - 0.74% - on the day to \$4.80 each.

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