

28 April 2008

Protonex Technology Corporation

Year End	Revenue (\$m)	PBT* (\$m)	EPS* (c)	DPS (c)	PE (x)	Yield (%)
09/06	2.3	(5.2)	(36.8)	0.0	N/A	N/A
09/07	6.0	(7.6)	(14.6)	0.0	N/A	N/A
09/08e	9.0	(9.8)	(15.7)	0.0	N/A	N/A
09/09e	14.0	(9.0)	(14.0)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items.

Investment summary: Important contract wins

This year's contribution of at least \$3m revenue from the \$5.6m of contracts announced in the last week goes a long way to filling the year's planned revenue. We are encouraged to see Protonex continuing to win military development funding, which should also help bring its commercial products to market more quickly. Total orders won now amount to \$35m.

\$3.7m follow-on contract for military battery charger

The award of a \$3.7m 16-month extension of the existing military battery charger development contract is good news in several respects. Protonex has already delivered a series of prototype Pulse M250s to the US military; the new contract will involve a greater number of unit deliveries and is conceivably the last step before an order for in-service products. The funding also allows the parallel development of commercial applications (including generators, power managers and uninterruptable power systems), which we expect to reach the market even earlier, by the calendar year end.

\$1.6m contract for UAV capability extension

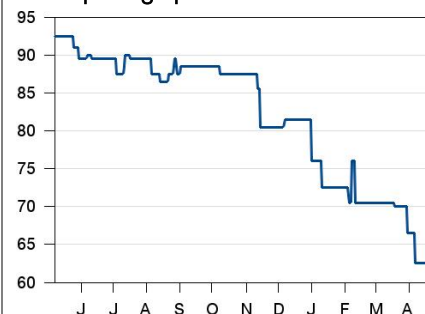
The award of a \$1.6m contract with the US Naval Research Laboratory to develop higher power and greater endurance in unmanned aerial vehicles (UAVs) builds on work Protonex has just completed with the US Air Force. With the leading technology (shown by its recent nine-hour flight test), Protonex is the favoured power source supplier to a number of UAV OEMS working with the US military. It looks well placed to win further contracts, although this segment is perhaps not as advanced as the Pulse M250 product.

Valuation: More steps to improve liquidity in May

While currently only 26% of shares trade in the unrestricted PTXU form, a further 30% of shares are eligible to migrate from PTX restricted form in May. This should help improve liquidity while the market value should rise to reflect the 36% premium the unrestricted shares trade at. We expect half-year results in late June to provide further evidence that military development funding is supporting an accelerated move to commercialisation.

Price (PTX) 62.5p
Market Cap £41m

Share price graph



Share details

Code PTX/PTXU
Listing AIM
Sector Electronic & Electrical Equipment
Shares in issue 64.8m

Price

52 week High 92.5p Low 62.5p

Balance Sheet as at 30 September 2007

Debt/Equity (%) N/A
NAV per share (c) 53.4
Net cash (\$m) 33.9

Business

PTX develops and manufactures compact, lightweight, high-performance fuel cell systems for portable power applications between 10W to 1,000W, using PEM and SOFC technologies.

Valuation

	2007	2008e	2009e
P/E Relative	N/A	N/A	N/A
P/CF	N/A	N/A	N/A
EV/Sales	11.3	8.4	6.2
ROE	N/A	N/A	N/A

Geography based on revenues

	UK	Europe	US	Other
0%	0%	100%	0%	0%

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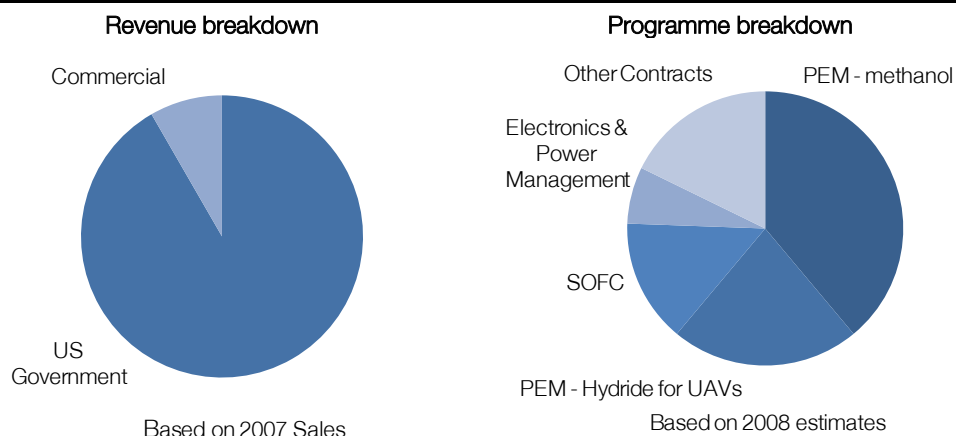
Company background

A broad technology base in fuel cells

Protonex is a US company, founded in 2000 and listed on AIM in June 2006. It seeks to commercialise portable fuel cells and already has development contracts with the US government and several commercial customers. The current product applications focus on products with power outputs between 10 and 1,000 Watts and are for portable generators, auxiliary power, battery charging, and specialty power.

Protonex differs from many peers in that it has a wider technology base, using Proton Exchange Membrane (PEM) and Solid Oxide Fuel Cell (SOFC) technologies; the latter through the acquisition of Mesoscopic Devices last April. PEM systems, running on hydrogen, chemical hydrides and methanol fuels, are beginning to enter the commercial and military markets. SOFC is over 12 months behind, but offers the opportunity to use commercially available fuels (propane, gasoline and diesel). The company's fuel cell products deliver high performance and low cost which, together with its multi-fuel approach, meet the needs of a diverse range of markets. The high demand and low price sensitivity of the military market, where Protonex has already won \$35m in contracts, provides a strong foundation to build commercial business.

Exhibit 1: Company breakdowns



Source: Edison Investment Research estimates

PEM injection moulded stack

One of Protonex's differentiating qualities is in the design and manufacture of PEM stacks, the electricity-producing core of a fuel cell. Its patented process has a single step approach to manufacturing these fuel cell stacks via injection moulded resin. This saves considerable time and permits continuous production. Conventional methods of construction are very time consuming because they require multiple precise manufacturing stages, including complex sealing and spacing.

Partnerships

A second element of the strategy is to enter partnerships with companies which can offer complementary skills in the manufacture and marketing of Protonex products. A key part of the PTX business plan is to acquire 'off-the-shelf' balance of plant components. Parker Hannifin, PTX's partner, is a world leader in this area. It has also formed strong relationships on product development with industry leaders like Cummins and Raytheon.

Exhibit 2: Financials

	\$'000s	2005	2006	2007	2008e	2009e
Year-ending September						
PROFIT & LOSS						
Revenue		1,757	2,316	5,990	9,000	14,000
Cost of Sales		0	0	0	(500)	(2,800)
Gross Profit		1,757	2,316	5,990	8,500	11,200
EBITDA		(2,330)	(5,569)	(8,563)	(10,400)	(8,950)
Operating Profit (before GW and except.)		(2,374)	(5,674)	(8,897)	(11,100)	(9,950)
Goodwill Amortisation		0	0	0	0	0
Exceptionals		0	0	(1,852)	0	0
Other		0	0	0	0	0
Operating Profit		(2,374)	(5,674)	(10,749)	(11,100)	(9,950)
Net Interest		150	490	1,325	1,300	950
Profit Before Tax (norm)		(2,224)	(5,184)	(7,572)	(9,800)	(9,000)
Profit Before Tax (FRS 3)		(2,224)	(5,184)	(9,424)	(9,800)	(9,000)
Tax		0	(1)	(97)	(100)	(100)
Profit After Tax (norm)		(2,224)	(5,185)	(7,669)	(9,900)	(9,100)
Profit After Tax (FRS3)		(2,224)	(5,185)	(9,521)	(9,900)	(9,100)
Average Number of Shares Outstanding (m)		3.8	14.1	52.6	63.0	64.8
EPS - normalised (c)		(58.5)	(36.8)	(14.6)	(15.7)	(14.0)
EPS - FRS 3 (c)		(58.5)	(36.8)	(18.1)	(15.7)	(14.0)
Gross Margin (%)		100.0%	100.0%	100.0%	94.4%	80.0%
EBITDA Margin (%)		(132.6%)	(240.5%)	(142.9%)	(115.6%)	(63.9%)
Operating Margin (before GW and except.) (%)		(135.1%)	(245.0%)	(148.5%)	(123.3%)	(71.1%)
BALANCE SHEET						
Fixed Assets		275	430	10,127	11,500	13,000
Intangible Assets		0	0	7,937	8,013	8,013
Tangible Assets		275	401	1,637	2,937	4,437
Investment in associates		0	0	0	0	0
Unquoted investments		0	29	554	550	550
Current Assets		9,832	19,450	35,876	26,862	18,085
Stocks		0	105	263	400	622
Debtors		293	362	1,298	1,800	2,800
Cash		9,507	18,707	33,875	24,000	14,000
Other		32	276	441	662	662
Current Liabilities		(171)	(700)	(1,610)	(3,862)	(5,685)
Creditors		(93)	(340)	(814)	(1,500)	(2,333)
Other creditors		(78)	(360)	(796)	(2,362)	(3,351)
Short term borrowings		0	0	0	0	0
Minority interests		0	0	0	0	0
Long Term Liabilities		0	0	(97)	(100)	(100)
Long term borrowings		0	0	0	0	0
Other long term liabilities		0	0	(97)	(100)	(100)
Net Assets		9,936	19,180	44,297	34,400	25,300
CASH FLOW						
Operating Cash Flow		(2,542)	(4,703)	(7,720)	(9,074)	(8,450)
Net Interest		150	490	1,325	1,300	950
Tax		0	0	(97)	0	0
Capex		(126)	(256)	(1,470)	(2,000)	(2,500)
Acquisitions/disposals		0	0	(2,922)	0	0
Financing		10,967	13,670	26,551	0	0
Dividends		0	0	0	0	0
Other		0	0	(500)	(100)	0
Net Cash Flow		8,449	9,200	15,167	(9,874)	(10,000)
Opening net debt/(cash)		(1,058)	(9,507)	(18,707)	(33,875)	(24,000)
HP finance leases initiated		0	0	0	0	0
Other		0	0	(0)	(100)	0
Closing net debt/(cash)		(9,507)	(18,707)	(33,874)	(23,900)	(14,000)

Source: Company accounts/Edison Investment Research

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