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Research comment

SMC Research
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Pyrum Innovations AG

Several projects approaching realisation

Rating: Speculative Buy (unchanged) | **Price:** 30.30 € | **Price target:** 56.50 € (prev.: 58.00 €)

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Current business development

Basic data

Based in:	Dillingen / Saar
Sector:	Recycling
Headcount:	85
Accounting:	HGB
Ticker:	PYR:GR
ISIN:	DE000A2G8ZX8
Kurs:	30.30 Euro
Market segment:	Scale
Number of shares:	3.62 m
Market Cap:	109.7 m Euro
Enterprise Value:	129.3 m Euro
Free Float:	54.6 %
Price high/low (12 M):	50.00 / 23.00 Euro
Øturnover (12 M Xetra):	43,200 Euro

FY ends: 31.12.	2023	2024e	2025e
Sales (m Euro)	1.1	2.0	12.9
EBIT (m Euro)	-9.1	-10.3	-6.5
Net profit	-9.5	-11.6	-7.9
EpS	-2.93	-2.96	-2.02
Dividend per share	0.00	0.00	0.00
Sales growth	16.8%	77.9%	532.2%
Profit growth	-	-	-
PSR	95.66	53.76	8.50
PER	-	-	-
PCR	-	-	-
EV / EBIT	-	-	-
Dividend yield	0.0%	0.0%	0.0%

Commissioning at the final stage

Pyrum is on the home straight with the ramp-up process of the two new production lines two and three at its headquarters in Dillingen. The full-capacity tests for the new lines are now underway and the management assumes, after several delays, that commissioning can be completed by the first quarter of 2025. The delays result, among other things, from quality defects in plant components that had to be complained about to the suppliers. For instance, only three of the planned five turbines for gas-fired power generation have been successfully cleared to date, as deficiencies still need to be fixed in the other two. In addition, there was still a need for minor optimisation measures throughout the test procedure, which resulted in several minor interruptions. Moreover, the personnel capacities for the simultaneous operation of line one and the commissioning of the new lines were somewhat too tight, to which the company responded with a further increase in personnel.

Revenue still low

As the production of line one had to be temporarily interrupted in order to test and ramp up the new units, and the production of the latter was still relatively low during test operation, the increase in output in the first nine months was fairly low compared to the potential. Another contributing factor was that the production of rCB pellets (recovered carbon black) was still well below target, as there were still technical problems with the machine that processes the coke produced by line one (too much waste), for which, however, a solution has now been found. In total, sales only increased by 29 percent to EUR 1.1 m. This does not yet include services under consulting contracts for customer plants that have been partly paid for and provided but may only be invoiced with an effect on revenue once the plants have been approved (which has not yet happened). These services in the amount of EUR 308,000 were included in the inventory increases, which thus totalled EUR 375,000 (previous year: EUR 52,000). Together with own work capitalised, which fell from EUR 9.8 m in the previous year to EUR 6.2 m due to the increasing completion of the new lines, this results in a total output of EUR 7.7 m, compared to EUR 10.7 m in the 2023 reference period.

Loss increased

With the lower level of own work required to complete the plants, the necessary material purchase has also decreased, with the result that the cost of materials fell from EUR 9.6 m to EUR 6.4 m (of which EUR 5.4 m was for own work). At EUR 2.7 m, however, other operating expenses were roughly at the previous year's level and personnel expenses increased by 27 percent to EUR 4.8 m due to the expansion of the workforce. On balance, the EBITDA loss thus increased from EUR -5.0 m to EUR -5.4 m, with higher other operating income (from EUR 0.5 m to EUR 0.9 m) thanks to investment cost subsidies. After deducting the slight increase in depreciation and amortisation (from EUR 1.6 m to EUR 1.7 m), this results in an EBIT of EUR -7.1 m (previous year: EUR -6.6 m), while the net loss increased from EUR -6.9 m to EUR -8.0 m within a year due to the increase in interest expenses (from EUR 0.3 m to EUR 0.9 m) as a result of the increase in debt financing.

Capital increase after the reporting date

The cash flow statement reflects the business operations that are loss-making given the still low revenue and the high level of investment in production capacity. The cash outflow from operating activities in the first nine months totalled EUR -4.2 m (previous year: EUR -4.4 m) and the cash flow from investing activities amounted to EUR -6.9 m (previous year: EUR -10.0 m). This was more than offset by the positive financing cash flow of EUR 12.9 m, which was largely shaped by further payments (EUR 14.3 m) from the loan granted by BASF in 2023. As a result, liquidity has increased from EUR 4.5 m to EUR 6.3 m in the year to date. After the quarterly reporting date, it improved significantly once again, as the company placed 363,600 shares at a price of EUR 27.50 per share in the course of a capital increase in October, raising gross proceeds of around EUR 10 m. This will also have a correspondingly positive effect on equity in the final quarter, which had fallen from EUR 22.4 m to EUR 14.4 m in the first nine months due to the loss for the period, reducing the equity ratio from 43.9 percent to 24.9 percent.

Numerous projects in progress

This gives the company the financial leeway to press ahead with the next steps in the capacity expansion programme. The company is currently preparing the start of construction for its second own plant in Perl-Besch. This was initially expected for December but has now been postponed to the first quarter of 2025 due to the somewhat more extensive expert reports that had to be submitted. At the same time, intensive work is being done on the realisation of plants with partners within the framework of special purpose vehicles (SPVs), in which Pyrum usually acquires a minority stake. A project in the Czech Republic is particularly advanced, for which the approval documents are to be submitted in the first quarter of 2025 and the final investment decision could follow later in the same year. For one plant in Greece, this still depends on a positive decision on a subsidy application, which has also been delayed but is expected by the end of 2024. The projects with SUEZ in the UK and Remondis in Bremen are also at a similarly advanced stage as the projects in the Czech Republic and Greece.

New forecast since September

While Pyrum's production was still shaped by delays in the first nine months, it is now largely on track. However, the shortfalls can no longer be made up for in the full year, so in September, the company lowered its forecast for this year's product sales from between EUR 2.5 and 3.5 m to between EUR 1.7 and 2.0 m and for income from consulting contracts (again, there were delays in the SPV projects over the course of the year) from EUR 0.5 m to a range of EUR 0.2 to 0.5 m. The development of the new plant in Perl-Besch is also slightly behind schedule, which is why the forecast figure for total output in the current year has also been reduced, with the impact here – EUR 10 m instead of EUR 25 to 30 m – being very significant. This revised outlook was confirmed with the publication of the nine-month report.

Further financing measures

In order to be able to press ahead with several projects at the same time, Pyrum has additional financing needs even after the equity measure has been completed. A loan agreement was concluded with BASF for this purpose last year, the first half of which (EUR 25 m) has already been called up to a large extent. For the second half, Pyrum must raise a further EUR 50 m elsewhere as a precondition. This can be equity capital, debt capital for the company or project financing (from partners or banks for SPV projects). The capital increase will be credited towards this amount accordingly. The company is currently working intensively on further measures to secure the required capital quickly.

Three projects could start soon

Despite all the delays, Pyrum has made significant progress overall. Production of the reactors at the headquarters in Dillingen is expected to switch to regular operation in the first half of 2025 and rCB pellet production will be significantly expanded with the new machine for lines two and three over the course of the year. The schedule is to set the milling and pelletising plant up in the first quarter, to test it from April on and to gradually ramp it up to 80 percent capacity in the second half of the year. This would eliminate the last bottleneck in production. At the same time, the plant concept would be fully tested and thus ready for realisation at other locations. Construction of the next own plant in Perl-Besch could start as early as the first quarter of 2025 and the partner projects in Greece and the Czech Republic are close to the final investment decision.

Update of estimates

As a result, Pyrum's business activities will gain considerable momentum in the coming year. While we continue to expect sales of EUR 2.0 m for the current year and have adjusted our EBIT loss estimate from EUR -11.4 m to EUR -10.3 m in response to the nine-month figures, we expect a sales growth to EUR 12.9 m and EBIT of EUR -6.5 m in 2025. This is slightly below the previous figures (sales EUR 14.0 m, EBIT EUR -5.2 m), as we have estimated the income from pellet sales somewhat more cautiously due to the continued lower capacity of the existing milling and pelletising plant, whose capacity cannot technically be expanded beyond 250 to 300 kg/h (600 kg/h was originally planned), and the necessary ramp-up time of the new, larger plant, whose capacity will be sufficiently high in its final status. There are also shifts afterwards; in particular, we have postponed the first revenue from the new plant in Perl-Besch from 2026 to 2027. On the other hand, we are slightly more positive about the medium to long-term growth prospects, as the company plans to launch a new project every quarter from 2027, ultimately constructing four per year. So far, we had only expected three projects per year. As a result, target sales and EBIT at the end of the detailed forecast period are even higher than previously (EUR 115.5 m and EUR 49.0 m) at EUR 118.4 m and EUR 51.9 m respectively. The development of the key revenue and cash flow figures resulting from our assumptions in the period up to 2031 is shown in the two tables on this page and the next one; further details on the balance sheet, income statement and cash flow statement can be found in the Annex.

Revenue model (m Euro)	2024	2025	2026	2027	2028	2029	2030	2031
Revenue plant Dillingen	1.7	6.6	13.3	13.3	13.3	13.3	13.3	13.3
Further own plants (total number)			*1*	*2*	*3*	*4*	*5*	*6*
Revenue further plants				5.5	23.5	42.4	62.8	82.4
SPVs (total number)	*2*	*5*	*8*	*11*	*13*	*15*	*17*	*19*
Revenue sale of plants/Consulting	0.3	6.3	24.3	24.3	24.3	12.2	12.2	12.2
Other revenue SPVs (maintenance etc.)			0.6	1.5	2.4	3.3	3.9	4.5
Plants without SPV (total number)				*1*	*2*	*3*	*4*	*5*
Revenue plants without SPV					6.0	6.0	6.0	6.0
Total revenue	**2.0**	**12.9**	**38.2**	**44.6**	**69.6**	**77.1**	**98.1**	**118.4**

Estimates SMC-Research

m Euro	12 2024	12 2025	12 2026	12 2027	12 2028	12 2029	12 2030	12 2031
Sales	2.0	12.9	38.2	44.6	69.6	77.1	98.1	118.4
Sales growth		532.2%	196.5%	16.7%	55.9%	10.9%	27.2%	20.6%
EBIT margin	-502.9%	-50.3%	27.2%	12.9%	33.0%	30.4%	38.5%	43.8%
EBIT	**-10.3**	**-6.5**	**10.4**	**5.8**	**23.0**	**23.4**	**37.8**	**51.9**
Tax rate	0.0%	0.0%	5.0%	5.0%	10.0%	33.0%	33.0%	33.0%
Adjusted tax payments	0.0	0.0	0.5	0.3	2.3	7.7	12.5	17.1
NOPAT	**-10.3**	**-6.5**	**9.9**	**5.5**	**20.7**	**15.7**	**25.3**	**34.7**
+ Depreciation & Amortisation	2.4	4.9	9.3	16.4	20.8	25.2	29.6	34.0
+ Increase long-term accruals	0.2	0.2	0.2	0.3	0.3	0.4	0.4	0.5
+ Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating cash flows	-7.7	-1.3	19.5	22.1	41.8	41.3	55.3	69.2
- Increase Net Working Capital	1.1	-1.3	-0.8	-0.4	-1.4	-1.5	-2.0	-2.4
- Investments in fixed assets	-8.9	-58.1	-56.1	-56.1	-60.1	-52.1	-52.1	-52.1
Free cash flow	**-15.4**	**-60.7**	**-37.4**	**-34.4**	**-19.7**	**-12.3**	**1.3**	**14.8**

SMC estimation model

Price target now EUR 56.50

Subsequently, we continue to calculate the terminal value with a fifteen percent discount to the target margin of 2031 and a "perpetual" cash flow growth of 1 percent p.a. The discount rate (WACC) also remains unchanged at 6.2 percent. The adjustment of the model results in a new fair value of EUR 220.7 m or EUR 56.55 per share (hypothetically fully diluted with 3.9 million shares). From this, we derive EUR 56.50 as a new price target (a sensitivity analysis of the price target can be found in the Annex). Despite an assumed higher expansion dynamic in the second half of the detailed forecast period, the anticipated further delays have led to a moderate reduction in the price target (previously: EUR 58.00). On a scale of 1 (very low) to 6 (very high), we continue to rate the forecast risk of our estimates as clearly above average at five points, since the data on the operation of the industrial plant in its final design is still fairly limited and, in addition, the marketing of the plant to third parties is still in its early stages.

Conclusion

Pyrum is still struggling with delays – both in ramping up its own production and in realising its next own plant in Perl-Besch, as well as in implementing projects with partners. However, this is not unusual given the high level of innovation and the many challenges that need to be overcome as part of the ambitious expansion strategy.

Overall, the company is making good progress in all key areas: The new reactors at the headquarters in Dillingen will go into regular operation in the first half of 2025, rCB pellet production will be significantly expanded following the installation of a new milling and pelletising plant in the second half of the year, the plant in Perl-Besch is about to start construction and two projects with partners are close to the final investment decision. This progress will increasingly be reflected in the figures.

The most important task at present is to secure financing for further expansion. With the placement of a capital increase in October, the next important step has already been taken. Further major measures are currently being examined and developed in order to have sufficient financial leeway to drive forward several projects at the same time.

We are confident in this respect and trust that the company will continue to develop rapidly over the next few years. Although taking the delays into account has slightly reduced the fair value we calculated from EUR 58.00 to EUR 56.50, this still offers very high upside potential. Accordingly, we do not believe that the company's great growth opportunities are currently adequately priced in on the stock market and reiterate our “Speculative Buy” rating.

Annex I: SWOT analysis

Strengths

- Patent-protected, innovative solution for scrap tyre recycling and the production of high-quality raw materials (thermolysis oil, recovered carbon black).
- The plant has been in regular operation since 2020; capacities are currently being tripled.
- Strong focus on R&D with participation in numerous important research projects.
- Strong partners: BASF, Continental and Ralf Bohle (“Schwalbe”) are shareholders and close co-operation partners.
- The founder runs the company.
- Large pipeline of potential projects with well-known partners.

Weaknesses

- Relatively short period of operation of the plant in the final design.
- Revenue has been low so far and was below plan in 2023 and the first nine months of 2024, as the throughput of the pelletising machine is still too low. At the moment, the company is still operating at a clear loss.
- The construction of Pyrum's own second and third production lines has been somewhat delayed and projects with third parties as well, significantly so. No construction of a plant for third parties has yet been started.
- Major binding funding commitments from project partners are still pending.
- Small team, dependent on key people.

Opportunities

- The strong expansion of the company's own plant in Dillingen will ensure increasing revenue with high margins.
- Some of the projects with third parties are well advanced and the first investment decisions could soon be made. This could generate considerable additional revenue to the company's own production.
- Due to the great need for efficient scrap tyre recycling, the demand could increase strongly after first successful projects.
- The situation on the sales markets addressed by Pyrum is currently very comfortable. Especially in the case of carbon black, the need for a sustainable supply from European sources is very great.
- Policy makers are pushing for the development of a circular economy in the tyre industry. By banning the use of scrap tyre granulate for various purposes, the EU is increasing the pressure for recycling. In some countries, thermal recycling is already prohibited as well.

Threats

- Financing for the major expansion plans has not yet been secured. Especially the bank financing of new plants is a challenging task due to the still limited database and is also becoming more expensive due to interest rate developments.
- Due to price increases for plant components, the necessary investment sum has increased significantly (but the potential revenue has increased as well).
- A significant fall in raw material prices could reduce income (however, minimum prices have been agreed for the most important products).
- With advances in recycling, the raw material “used tyres” could become a scarce resource.
- Alternative recycling technologies could prove more efficient.

Annex II: Balance sheet and P&L estimation

Balance sheet estimation

m Euro	2023 act.	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
ASSETS									
I. Total non-current	45.1	51.6	104.7	151.4	191.1	230.4	257.2	279.7	297.8
1. Intangible assets	5.6	5.0	4.3	3.7	3.0	2.4	1.7	1.1	0.4
2. Tangible assets	39.5	46.6	88.3	123.7	152.0	175.9	195.5	210.6	221.3
II. Total current assets	5.7	14.7	8.6	12.0	15.3	21.9	26.1	23.9	35.7
LIABILITIES									
I. Equity	22.4	22.2	25.7	32.5	33.0	47.1	57.0	75.9	104.1
II. Accruals	3.2	3.4	3.6	3.8	4.1	4.4	4.8	5.2	5.7
III. Liabilities									
1. Long-term liabilities	18.0	32.0	72.9	111.9	150.9	180.1	199.6	199.6	199.6
2. Short-term liabilities	7.3	9.0	11.3	15.4	18.7	20.9	22.2	23.2	24.3
TOTAL	**50.9**	**66.6**	**113.6**	**163.7**	**206.7**	**252.5**	**283.6**	**303.8**	**333.7**

P&L estimation

m Euro	2023 act.	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
Sales	1.1	2.0	12.9	38.2	44.6	69.6	77.1	98.1	118.4
Total output	12.8	10.2	26.1	73.4	79.8	104.8	112.3	133.3	153.6
Gross profit	1.4	1.3	10.3	33.0	36.8	59.2	64.1	82.5	100.2
EBITDA	-7.0	-7.9	-1.6	19.7	22.1	43.2	46.9	64.2	80.8
EBIT	-9.1	-10.3	-6.5	10.4	5.8	23.0	23.4	37.8	51.9
EBT	-9.5	-11.5	-7.8	7.2	0.6	15.8	14.9	28.3	42.2
EAT (before minorities)	-9.5	-11.6	-7.9	6.8	0.5	14.2	9.9	18.9	28.2
EAT	-9.5	-11.6	-7.9	6.8	0.5	14.2	9.9	18.9	28.2
EPS	-2.93	-2.96	-2.02	1.74	0.12	3.63	2.54	4.83	7.22

Annex III: Cash flows estimation and key figures

Cash flows estimation

m Euro	2023 act.	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
CF operating	-6.2	-6.6	-2.7	18.8	21.9	41.1	42.6	56.6	70.0
CF from investments	-11.7	-8.9	-58.1	-56.1	-56.1	-60.1	-52.1	-52.1	-52.1
CF financing	9.7	24.1	52.0	36.8	34.8	22.8	11.3	-9.7	-9.7
Liquidity beginning of year	12.5	4.3	13.0	4.3	3.8	4.5	8.3	10.1	5.0
Liquidity end of year	4.3	13.0	4.3	3.8	4.5	8.3	10.1	5.0	13.2

Key figures

percent	2023 act.	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
Sales growth	16.8%	77.9%	532.2%	196.5%	16.7%	55.9%	10.9%	27.2%	20.6%
EBITDA margin	-614.5%	-385.2%	-12.0%	51.6%	49.6%	62.1%	60.8%	65.4%	68.2%
EBIT margin	-796.4%	-502.9%	-50.3%	27.2%	12.9%	33.0%	30.4%	38.5%	43.8%
EBT margin	-825.8%	-564.7%	-60.7%	18.8%	1.3%	22.7%	19.3%	28.8%	35.7%
Net margin (after minorities)	-829.3%	-566.7%	-61.0%	17.8%	1.1%	20.4%	12.8%	19.2%	23.8%

Annex IV: Sensitivity analysis

	Perpetual cash flows growth				
WACC	**2.0%**	**1.5%**	**1.0%**	**0.5%**	**0.0%**
5.2%	124.23	102.40	85.73	72.59	61.97
5.7%	98.02	81.91	69.21	58.94	50.46
6.2%	78.24	65.96	**56.55**	47.83	40.95
6.7%	62.84	53.24	45.31	38.66	33.00
7.2%	50.56	42.90	36.46	30.99	26.27

Disclaimer

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Charts
The charts were made with Tai-Pan (www.lp-software.de).

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II) Preparation and updating

The present financial analysis was prepared by: Dipl.-Kfm. Holger Steffen

Participants in the preparation of the present financial analysis: -

The present analysis was finished on 5.12.2024 at 7:00 am and published on 5.12.2024 at 8:15 am.

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Date	Investment recomm.	Target price	Conflict of interests
08.10.2024	Speculative Buy	58.00 Euro	1), 3), 4)
08.07.2024	Speculative Buy	59.60 Euro	1), 3)
29.05.2024	Speculative Buy	59.00 Euro	1), 3), 4)
09.04.2024	Speculative Buy	59.50 Euro	1), 3), 4)
14.03.2024	Speculative Buy	62.40 Euro	1), 3), 4)
07.12.2023	Speculative Buy	64.40 Euro	1), 3)
26.09.2023	Speculative Buy	77.00 Euro	1), 3), 4)
27.06.2023	Speculative Buy	77.00 Euro	1), 3)
06.06.2023	Speculative Buy	77.00 Euro	1), 3)
05.04.2023	Speculative Buy	80.00 Euro	1), 3)
03.02.2023	Speculative Buy	80.00 Euro	1), 3)

In the course of the next twelve months, sc-consult GmbH will presumably prepare the following financial analyses for the company: two updates and two comments.

The publishing dates for the financial analyses are not yet fixed at the present moment.

Exclusion of liability

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