

Velocys unveils big growth plan

Strategy update reveals significant potential

A long-awaited strategy update (13 Dec) from small-scale gas-to-liquids (GTL) play Velocys (VLS:AIM) offers a window into considerable upside which critically should not be diluted by big capital raisings.

We added the stock to our *Great Ideas* portfolio in September. The shares were then trading close to all-time lows at 30p and have since rallied 20.8% to 36.23p.

TECHNOLOGICAL EDGE

The £52m market cap has technology which can convert neglected and otherwise sub-commercial deposits of natural gas into more valuable and transportable liquid fuels.

GTL is a refinery process to convert natural gas or other gas-based hydrocarbons into liquid synthetic fuels. GTL applications have, in one form or another, existed for nearly 100 years but currently can only be commercially deployed at large plant sizes (30,000 barrels per day) which require upfront capital investment of \$3 billion or more.

Velocys' small scale GTL technology, based on the well-established Fischer-Tropsch (FT) process, can operate efficiently at anywhere between 1,000 to 15,000 barrels per day.

HEAVYWEIGHT BACKING

Backed by Russian oligarch and Chelsea FC chairman Roman Abramovich, the company's first GTL plant at a landfill site in Oklahoma is currently in the equipment test phase known as 'commissioning'.

The ENVIA Energy GTL Plant is a joint venture between Velocys, Waste Management (WM:NYSE), NRG Energy (NRG:NYSE) and Ventech Engineers.

Once up and running early in 2017 it should act as a showcase for the technology and support progress on a pipeline of other projects.

Incoming chief executive David Pummell initiated a review earlier in 2016 and the results now reveal



an addressable market of 29 plants in North America over the next five years.

The company hopes to deliver an average of one or two plants a year which, in its words, would be 'sufficient to establish Velocys in its key markets and generate sustainable business'.

SQUARE THE CIRCLE

In order to speed development, the company is looking to take greater control of projects.

Historically it pursued an asset and capital light strategy based on licensing its technology for GTL reactor equipment and chemical catalysts.

Earlier this year it made a \$9m loan available to ENVIA, secured against the plant, giving it additional equity in the venture.

Alex Brooks, analyst at investment bank Canaccord Genuity, comments: 'Breaking ground to mechanical completion at ENVIA-1 took just 20 months. We have long believed greater control of projects by Velocys should lead to faster progress, and management intends to "square the circle" of control without significant incremental capital, with strategic partnerships.'

SHARES SAYS: ↗

Canaccord has a price target of 110p. Keep buying.

BROKER SAYS: 2 0 0