

Revolve Renewable Power Corp.

Valuation Model Indicates Shares Trading Below Many Peers and the Sum-of-the-Parts

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KEY POINTS

- **Revolve is undergoing a transformational strategy shift to an owner/operator model through organic and inorganic growth.** This strategic shift in the business model should drive increased cash flow through long-term recurring revenue.
- **Revolve trades at a significant discount to its peers,** even though it has delivered revenue and EBITDA, has a larger development pipeline than many of its peers, and further expected payments of US\$50-60 million from the ENGIE transaction.
- **Relative valuation suggests that shares of REVV trade at a significant discount to the peer group of US- and Canada-listed renewable energy developers.** Based on Revolve's FY25 EBITDA target, it currently trades at an FY25 EV/EBITDA of 1.6x compared with the peer average of 5.8x.
- **A sum-of-the-parts analysis suggests a base-case valuation of C\$28.1-33.6 million (C\$0.69-0.83 per share).** We note that this uses a conservative 80% project development risk for the utility-scale project and values only the operating and under construction distributed generation (DG) portfolio. As the utility-scale project portfolio moves closer to "ready-to-build" status and the project discount moves to 70%, the valuation would be an additional C\$23-30 million. Further, this sum-of-the-parts does not include the DG project portfolio or the payments from ENGIE.
- **Option value.** One can view the 155MW of DG projects in development, including the 2MW with LOIs signed, and the US\$50-60 million in trailing payments from ENGIE as free options, which are not reflected in the share price or our sum-of-the-parts analysis.
- **Revolve recently issued its FY24 outlook of US\$5 million in revenue and break-even EBITDA,** with a target to increase this to FY25 revenue of US\$15 million and EBITDA of US\$10 million.
- **The company also announced the acquisition of WindRiver Corporation, a Canada-based owner, operator, and developer of wind and hydro projects, with a net operational and development capacity of 96.63MW.** This is expected to add further revenue and cash flow to the business, in addition to two "run of river" hydro projects that are under development.

KEY STATISTICS

Ticker:Exchange	REVV:TSXV
Current Price	\$0.28
52-Week Range	\$0.20-\$0.71
Average Volume (30-Day)	4,155
Shares Outstanding (MM)	46.0
Market Cap (\$MM)	\$12.9
Fiscal Year-End	June

PRICE PERFORMANCE



COMPANY OVERVIEW

Revolve Renewable Power is an owner, operator, and developer of renewable energy projects focused on the North American market. The company offers a unique opportunity for common equity investors to participate directly in two key trends in the renewable energy sector: (1) the development of utility-scale renewable projects; and (2) behind-the-meter DG projects. The company's strategy is to evolve into a dedicated renewable independent power producer focused on long-term recurring revenue and cash flow. The company has a portfolio of 3GW under development and an accomplished management team with a track record of success, having already generated \$20 million in revenue for the business. The primary focus of the company is owning, operating, and developing renewable energy electricity generation projects in the US and Mexico, with a recently announced planned expansion into the Canadian market. These projects encompass a diverse portfolio of wind, solar, and battery storage, amounting to 6MW in operation, 3MW currently under construction, and a further 3GW under development.

In addition to its existing operating and development portfolio, the company also successfully sold 1,250MW of solar and storage development assets to ENGIE in January 2023 for a transaction value of between US\$50 million and US\$62.5 million. These were the company's third and fourth project sales and are expected to deliver further revenue over the coming years.

Revolve is also well-positioned to benefit from the growing trend of DG, which refers to the production of electricity from renewable sources at or near the point of consumption. This trend is being driven by the increasing demand for reliable and clean energy by large industrial companies, as well as the declining cost of renewable technologies. This division aims to cater to the DG market and sub-20MW renewable energy projects. The scope of this division encompasses various types of projects, including wind, rooftop solar, ground-mounted solar, battery storage, and energy efficiency projects, both "behind the meter" and grid-connected. These endeavors will be targeted across the US and Mexico.

The Market

Revolve is in a favorable position to seize the opportunities presented by the rapid growth of the renewable energy market. Projections indicate that the global renewable energy market is poised to reach a substantial value of \$1.998 trillion by 2030, with a projected CAGR of 8.6% from 2022 to 2030. This remarkable expansion is fueled by the increasing global demand for clean and sustainable energy sources for large corporations, driven by environmental concerns, government policies, and the declining costs of renewable technologies. The US is recognized as the largest and most promising market for renewable energy worldwide. The Canadian renewable energy market has also been bolstered this year by a large package of tax and grant incentives announced by the government as part of its 2023 budget. The Mexican market was the fastest-growing renewable energy market in Latin America for a number of years up to 2019 and holds considerable wind and solar resources for future development. All three countries have made significant commitments to transition to cleaner energy systems, creating a favorable long-term regulatory environment and providing substantial incentives for renewable energy development. As a result, the renewable energy sector across North America has experienced remarkable growth in recent years. Additionally, federal incentives and tax credits further support the growth of the renewable energy sector, creating a conducive environment for Revolve to expand its project portfolio and contribute to the country's clean energy transition.

Business Model

Revolve has recently transitioned from being solely a development company to an owner and operator of renewable energy projects. This strategic shift represents a significant milestone for the company, reflecting its strategy of building a renewable independent power producer focused on long-term recurring revenue and cash flow across North America. Previously, as a development company, Revolve focused on identifying, designing, and developing renewable energy projects. It played a crucial role in the early stages of project conception, feasibility assessments, and permit acquisition. Projects were then sold to large international utilities once they were ready to start construction, with the company earning a development return.

The strategic shift to an owner and operator model will see the company aim to retain ownership of projects through the construction phase and into operation, creating long-term revenue and cash flow for the business. The company intends to do this through the organic growth of its existing 3GW portfolio of projects, which will also be supplemented by strategic acquisitions. The company completed its first of these acquisitions in August 2022, acquiring a portfolio of operating DG assets from Centrica plc, a large UK utility. The company has also just announced the signing of another acquisition, which will see it expand into the Canadian market and acquire a portfolio of interests in operating hydro and wind assets in British Columbia and Alberta.

Revolve has set an ambitious goal to convert 40MW per year over FY24 and FY25 from its DG development portfolio into projects under construction or operational status.

Highlights

Revolve has undergone a transformational business model shift to become an owner/operator through both organic and inorganic growth. Building on its 10-year track record as a developer, the company’s portfolio now includes 2.85GW of utility-scale development projects combined with more than 160MW DG assets across the US, Canada, and Mexico.

At its current market capitalization of ~US\$14.5 million and an enterprise value of \$15.6 million, the company is trading at a discount to its peers and below a baseline sum-of-the-parts valuation.

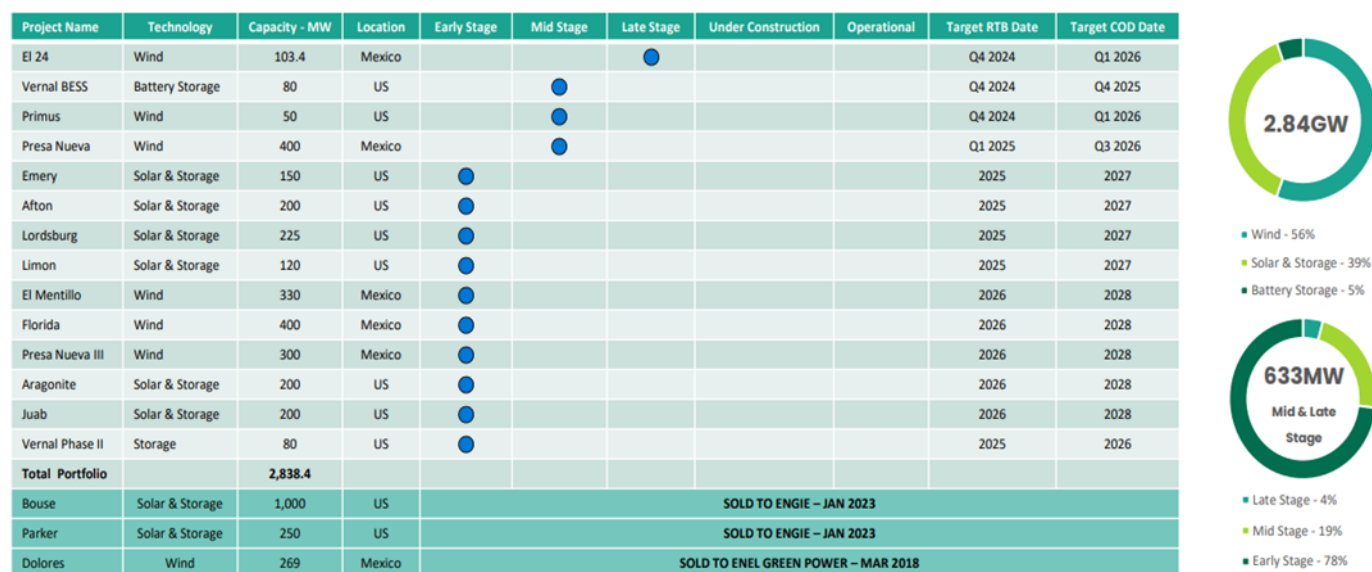
Sum-of-the-Parts Analysis

Revolve operates in two businesses: (1) Utility-Scale Projects; and (2) Distributed Generation.

Utility-Scale Projects

As of November 30, 2023, the company had a portfolio of 2,838MW projects under active development, including those in early-stage, mid-stage, and late-stage.

Figure 1: Utility-Scale Projects Portfolio



Source: Revolve 1QFY24 Presentation

Each megawatt of capacity carries a valuation of US\$40,000-50,000 (refer to our [IOC report](#)). Applying a conservative blended discount rate of 80% to account for project risk, this implies a portfolio value of US\$22.7-28.4 million or (C\$0.56-0.70 per share at current exchange rates). As the development of the portfolio progresses and risks to the projects decline, the implied discount rate should move lower, which should yield higher valuations. For example, using a 75% discount rate, the value would be US\$28.3-35.5 million or (~C\$0.70-0.87 per share at current exchange rates), and using 65%, the implied valuation would increase to US\$40-50 million (or C\$0.98-1.23 per share at current exchange rates).

The company has stated that it expects its pipeline to reach 3,500MW in FY24 and 5,000MW in FY25, but that is not included in this baseline model.

Distributed Generation

The DG portfolio primarily consists of multiple projects that are in operation, as well as one project’s construction, and many others in the development stage.

Figure 2: Distributed Generation Portfolio

Distributed Generation

Technology – MW	Operational	Under Construction	Development
Rooftop Solar	2.35	-	17.53
CHP	0.5	3.0	8.7
Battery Storage	3.2	-	100.6
Solar Thermal	-	-	17.3
Ground Solar	-	-	11.0
TOTAL	6.05	3.0	155.13

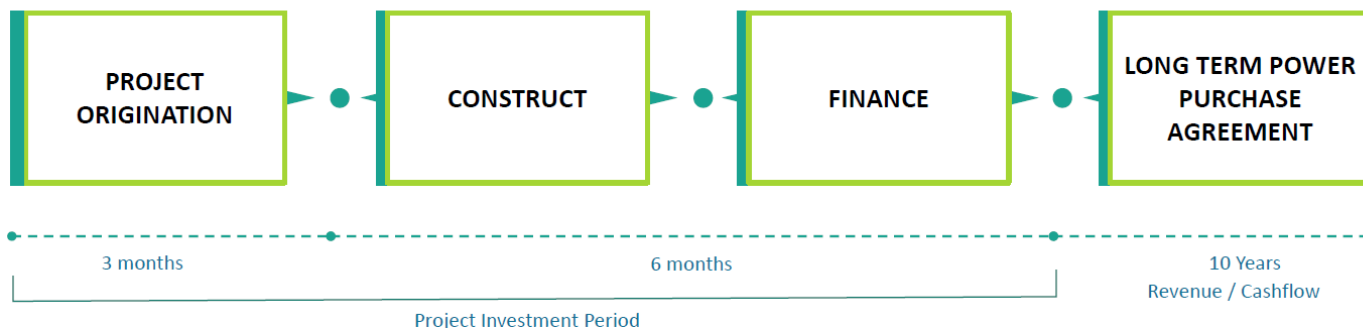
Source: Revolve 1QFY24 Presentation

The 6.05MW of operational DG assets generated US\$101K in the most recent quarter, which is in line with the company’s expectation that the existing operational DG projects will contribute ~US\$400K per year in cash flow over the remaining nine-year life of the PPAs. Using a discounted cash flow analysis and a 7% discount rate calculates the present value of these projects to be approximately US\$2.6 million, or about C\$0.06 per share. Revolve has another 3MW of CHP distributed generation that is under construction that the company expects to generate US\$400K of EBITDA per year for 10 years, which we value at approximately US\$2.62 million (~C\$0.07 per share), using a 7% discount rate.

The company has 155MW of DG projects in its development pipeline, of which close to 2MW have signed letters of intent with draft contracts nearing finalization. Further, we note that 77% of the project development pipeline is a battery storage project, which can move from project origination to a PPA in as little as one year.

Figure 3: 2MWh Battery Storage System

○ Illustrative Investment Case – 2MWh Battery Storage System



Source: Revolve 1QFY24 Presentation

UPDATE NOTE

CLIMATE TECH & SUSTAINABLE INVESTING

Embedded Option Value

There are multiple parts of Revolve that can be viewed as ‘free’ options that we have not included in a baseline sum-of-the-parts analysis. These include more than 155MW of DG projects in the development pipeline, the growing utility-scale development pipeline, and the expected further payments of US\$50-60 million from the ENGIE deal. To date, the company has received US\$2.85 million in cash payments from the ENGIE transaction.

Relative Valuation

Compared with its peer group of US- and Canada-listed renewable energy developers, shares of REVV are trading at a discount despite Revolve having delivered revenue and EBITDA and having a larger development pipeline than many of its peers.

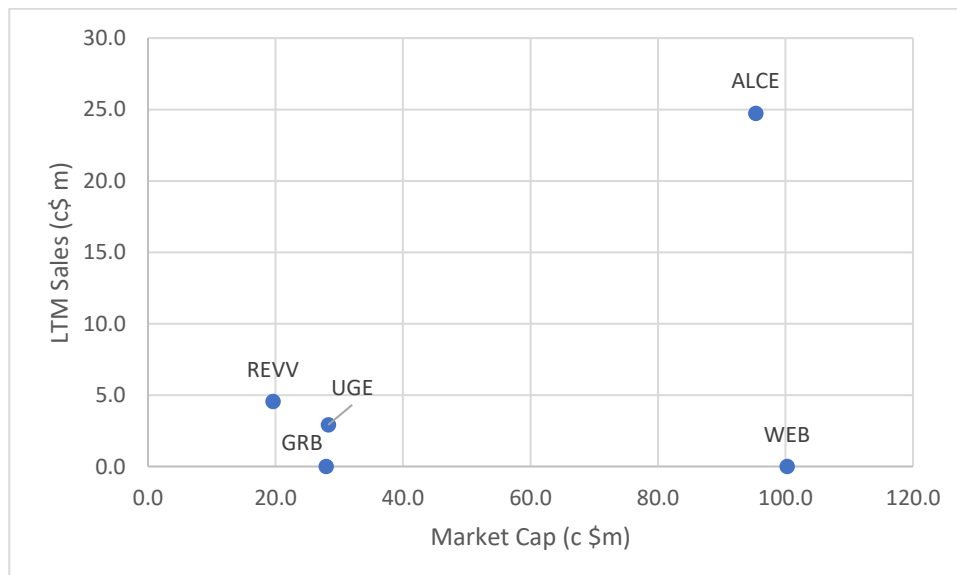
As shown in Figure 4, Revolve shares are trading at just 1.6x FY25 EV/EBITDA, below the average of 5.8x for its peers, only two of whom have positive forecast EBITDA. REVV trades at 1.0x FY25 P/S, below the average of 4.2x for its peers.

Figure 4: Peer Group Key Multiples

Ticker	LTM P/S	FY24 P/S	FY25 P/S	LTM EV/EBITDA	FY24 EV/EBITDA	FY25 EV/EBITDA
REVV	4.3	2.9	1.0	14.9	NA	1.6
WEB	NA	NA	NA	NA	NA	NA
GRB	NA	NA	NA	NA	NA	NA
UGE	21.3	33.2	11.4	NA	NA	NA
ALCE	3.9	NA	NA	NA	NA	NA
AMPS	6.0	5.4	3.8	23.0	17.9	13.0
SOL	1.4	1.1	0.8	16.4	6.5	2.9
AZREF	0.3	NA	NA	8.5	NA	NA
Average	6.2	10.6	4.2	15.7	12.2	5.8

Source: FactSet and WTR, based on January 24, 2024

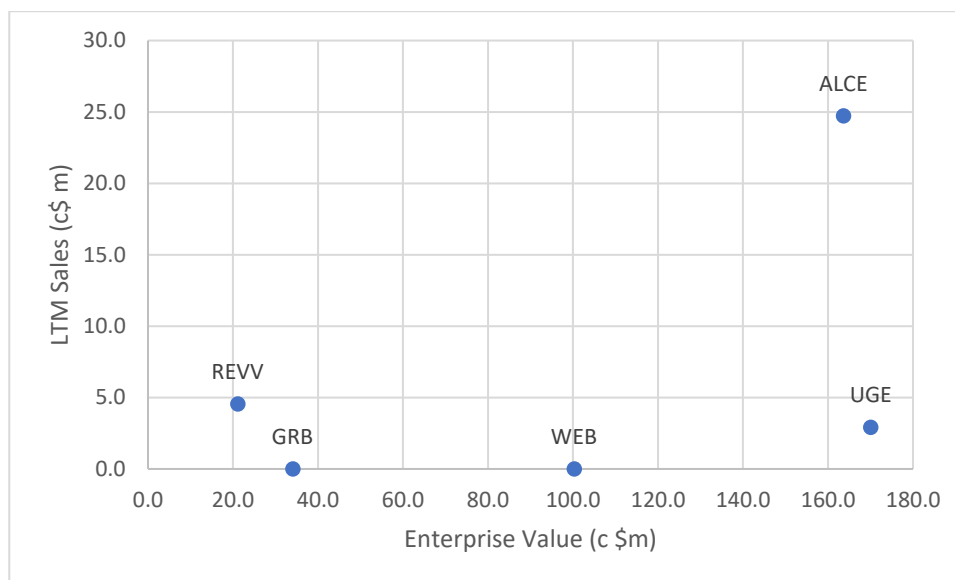
Figure 5: LTM Revenues vs. Market Capitalization



Source: FactSet and WTR, based on January 24, 2024. *Note: ALCE financials are pro forma combined financials.

Figures 5 and 6 show that shares of Revolve are also trading below their peers when comparing LTM revenue with market capitalization and enterprise value.

Figure 6: LTM Revenue vs. Enterprise Value



Source: FactSet and WTR, based on January 24, 2024. *Note: ALCE financials are pro forma combined financials.

Figure 7: Peer Group Key Financials

Name	Ticker	Share Price (c \$)	M.Cap (c \$ m)	Debt (C \$ m)	Cash (C \$ m)	EV (C \$ m)	LTM Sales (c \$ m)	LTM EBITDA (c \$ m)	FY24 Sales (c \$ m)	FY25 Sales (c \$ m)	FY24 EBITDA (C \$ m)	FY25 EBITDA (C \$ m)
Revolve Renewable Power Corp	REVV	0.32	19.6	3.44	1.90	21.11	4.5	1.4	6.8	20.3	0.0	13.5
Westbridge Renewable Energy Corp.	WEB	1.01	100.3	36.29	5.45	100.26	0.00	-1.5	NA	NA	NA	NA
Greenbriar Sustainable Living Inc.	GRB	0.82	28.0	2.21	1.81	34.03	0.00	-2.7	NA	NA	NA	NA
UGE International Ltd.	UGE	0.84	28.3	112.79	4.78	170.02	2.92	-13.7	1.9	5.5	-12.6	-11.5
Alturus Energy Group*	ALCE	1.32	95.3	77.22	8.91	163.62	24.72	NA	NA	NA	NA	NA
Altus Power	AMPS	7.58	1212.1	1317.87	92.07	2420.17	199.40	105.2	222.1	311.5	135.2	186.1
Emeren Group	SOL	2.67	161.0	61.16	93.56	126.28	109.89	7.7	150.6	205.8	19.4	43.5
Azure Power	AZREF	1.63	104.6	2579.58	334.40	2348.26	332.37	275.5	NA	NA	NA	NA

Source: FactSet and WTR, based on January 24, 2024. *Note: ALCE financials are pro forma combined financials.

Our Previous Research Content

Update Note

12/01/23 [1Q24 Results: Revenue Drives Ahead Led by ENGIE Milestone Payment](#)

REVV reported total revenue of \$1.2 million in 1Q24, \$1.1 million higher than in 4Q23, primarily due to the interconnection milestone payment received from ENGIE under the sale agreement for the Parker project and recurring revenue from the operational distributed generation (DG) portfolio.

Initiation of Coverage Report

10/17/23 [Leveraging Investments in the Renewable Energy and Distributed Power Megatrend](#)

Revolve Renewable Power is transitioning from a pure development company to an owner and operator of renewable energy projects. This strategic shift should allow for more predictable revenue and cash flow.

ABOUT THE ANALYSTS



Shawn Severson

President & Co-Founder

Shawn Severson is President & Co-Founder of Water Tower Research. Prior to co-founding Water Tower Research and previously founding predecessor firm alphaDIRECT Advisors, Shawn spent over 20 years as a senior equity research analyst covering the Technology and ClimateTech sectors, including senior positions at JMP Securities, ThinkEquity, Robert W. Baird (London) and Raymond James, and he started his career as an equity research associate at Kemper Securities.

Shawn was frequently ranked as a top research analyst including one of the Wall Street Journal's "Best on the Street" stock pickers and a StarMine Analyst Awards Top 3 stock picker. Shawn's extensive professional experience also includes his former role as Managing Director of the Energy, Environmental and Industrial Technologies Practice at The Blueshirt Group, a leading investor relations and IPO advisory firm. Shawn holds a BA degree in Finance and Economics from Augustana College.



Graham Mattison

Senior Research Analyst

Graham Mattison brings more than 20 years of experience in equity research, investor relations, and corporate operations, growth, and development. Graham was the Investor Relations Officer for two NASDAQ-listed companies where he led multiple equity raises as well as managed an activist investor campaign, M&A and corporate restructuring, and a NASDAQ delisting and relisting.

Previously, he was a Senior Equity Research Analyst, most recently at Lazard Capital Markets, covering the industrial and cleantech industries. He began his career in Southeast Asia as an Investment Analyst for Daiwa Securities. He was also co-founder of an online residential real estate start-up that developed a web-based auction platform.

Graham received his BA in East Asian Studies with minors in Economics and History from Hobart College and his MBA in Finance with honors from the Thunderbird International Business School at Arizona State University. He is an Investor Relations Charter (IRC) holder from the National Investor Relations Institute.

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