

# Active Energy Group PLC

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## Active Energy: Seeing the wood for the trees

Even for AIM, Active Energy Group Plc (LON:AEG) looks a little 'exotic'.

It derives a substantial amount of its revenues from Ukraine; is plotting a revolution in the biomass fuel industry; and has signed a landmark forestry and timberland management deal with three indigenous groups in Canada.

Now, usually in the lexicon of the alternative market, 'exotic' is a polite way of saying it is a risky investment, in the same way that in politics the word 'brave' tends to mean stupid.

Of course, there are always risks attached to any investment, particularly one in the formative stages of development.

But here 'exotic' refers to the fact that AEG is a little out of the ordinary.

The average AIM investor is still to get his or her head around forestry and the advent of timber investment management organisations, or TIMOs for short.

And while it has been a learning curve for this writer, AEG's basic proposition is a much easier one to follow than some of the more distinctly 'exotic' stories told by the junior oilers and diggers.

So, first things first: you might have heard the Active Energy Group name before, and indeed many may be familiar with its history.

However, the current management, led by chief executive Richard Spinks, picked up the company in 2012 as a clean shell, along with the name, so they can't be held liable for past failures.

With that disclaimer out of the way, it's worth looking at what the group actually does to earn its money.

Its wood chip business, acquired in June 2013, processes around 1,200 tonnes of logs a day into wood chip at its facility at Yuzhny Port in Ukraine, which is then exported in bulk cargo vessels across the Black Sea to MDF (medium-density fibreboard) manufacturers in Turkey.

Two years ago it was lucky to ship 4,300 tonnes over the course of a year; now it does that in less than four days.

The recent political and military tensions in the country will no doubt deter some investors, and if the wood chip business was the entirety of AEG they could be excused for giving the stock the barge pole treatment.

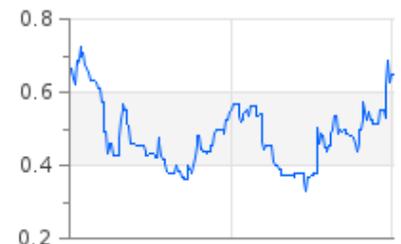
But it's just part of the group's trading activities. And it's also worth pointing out Yuzhny, near Odessa in the south of the country, is currently unaffected by the turmoil.

Moreover, AEG is currently experiencing an unexpected and potentially beneficial financial upside from the rapid

**Price:** 0.65

**Market Cap:** £7.86 m

### 1 Year Share Price Graph



February 2019 August 2019 February 2020

### Share Information

**Code:** AEG

**Listing:** LSE

**52 week High Low**  
0.75 0.32

**Sector:** Energy

**Website:** [www.aegplc.com](http://www.aegplc.com)

### Company Synopsis:

*Active Energy Group plc is a London listed (AIM:AEG) renewable energy company focused on traditional and second generation biomass products that have the potential to transform the traditional coal fired-power industry and develop an international forestry management business.*

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depreciation of the Hryvnia, Ukraine's currency; as it purchases raw materials in Hryvnia but sells in either US dollars or euros.

According to analysts, this is likely to have a significant impact on the margins and profitability of the Ukrainian wood chip operations.

AEG also sources finished wood chip from Spain and Montenegro for supply to Italian biomass-fuelled power stations – although this is only done on an opportunistic basis at healthy margins.

CEO Spinks and his team are aware that they cannot build a sustainable business on the margin improvements provided by the weakness of the Hryvnia.

So it has done two things. The recent forestry joint venture with the Métis settlements of Peavine, Paddle Prairie and East Prairie in Alberta, Western Canada, has been one means of diversification.

The second, a biomass fuel granulation development and commercialisation agreement, has the potential to provide considerable benefits over existing biomass fuel pellet solutions.

The company is fast becoming one of the largest suppliers of 'green energy' feedstock to the Italian power generation industry, and has been looking at methods of improving its product offerings and boosting its margins.

It anticipates offering two products: one will allow it to provide higher efficiency biomass fuel – measured in increased energy calories per tonne - by decreasing the moisture levels in the product; the other will be a fuel granule solution that will enable coal-fired power stations to switch directly to biomass.

An illustration of the potential in the latter is found in North Yorkshire, in the form of the giant Drax power station, which provides 7-8% of the UK's total electricity requirements.

Its owners could have saved themselves the more than £2bn it cost to convert part of the plant to burn biomass fuel had the AEG product been on the market.

It could also provide an environmental revolution in China, which is under international pressure to cut its reliance on fossil fuels and clean up its act.

Given the huge potential of AEG's Biomass division, there is the possibility it could be spun out as a separate entity in order to attract the capital it requires.

The third and potentially largest leg to the business came about via a landmark joint venture deal with the Métis Settlements of Alberta, Canada, owners of huge areas of standing prime forestry assets.

The exclusive joint venture (JV) was initially set up to commercialise 100,000 hectares of mature forests in Western Canada, which were expected to yield more than 20 million cubic metres of standing timber.

But in an update, the AEG JV announced that the area under its control is likely closer to 200,000 hectares.

It is currently carrying out extensive sampling to assess the volume, quality and density of the standing timber, much of which is believed to be more than 50 years old, making it ideal for a wide range of applications.

AEG owns 45% of the JV company, called the KAQUO Forestry and Natural Resources Development Corporation. KAQUO in the Cree tongue means 'all together'.

So, together the AIM-listed business and the Métis, one of the Aboriginal peoples of Canada, will look to commercialise the asset by promoting 197-year tree farming permits to TIMOs and other investors, including timber industry firms.

"This was a very difficult deal to do, but it was the first of its kind," Grand Chief Ronald M. Derrickson, of British Columbia, told Proactive Investors.

AEG's Spinks added: "This is something I see becoming the largest part of our business: working with First Nations and other native groups across Canada."

It is very easy to see why the business is so attractive. TIMOs are always on the look-out for large-scale, high-quality, high-density mature forestry assets, but rarely find them - especially those with the exceptionally long term permits that KAUO is offering.

The 200,000 hectares under management seems to tick all the right boxes.

And valuable mature timberland is a finite commodity, which means prices are only going to move in one direction.

Tree farming permit holders, likely to include TIMOs and some of the world's biggest investment groups, will be expected to manage the forests and harvest the timber in a way that respects the practices and bylaws of the indigenous inhabitants.

AEG's share price is up 21% in the year to date, and the trading activity suggests the more savvy investors are starting to nibble around the edges of this one.

But with a market valuation of just £15 million, there is plenty of headroom for further growth – particularly if management is able to convert promise into real tangible returns.

Exotic? Perhaps. But definitely not one for the 'brave'\*.

\*See earlier definition of brave.

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