



Eurocontrol Technics Reports Q1 Results; Trades Below Net Cash Value

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This article is an excerpt of a larger piece which can be viewed at:

<http://seekingalpha.com/instablog/1107010-edward-vranic-cfa/4887133-peak-promises-100-million-revenue-2016-500-million-2018>

Eurocontrol Technics Group Inc. (EUCTF) (EUO.V) [released its Q1 results](#) earlier this week, which included all the related balance sheet updates after the closure of its deal with SICPA. Given that the SICPA deal closed in early January it was a long time coming for shareholders as the company finally completed the grueling accounting exercise that comes with any significant corporate transaction like this.

I have a 55 cent target on EUO. For those who are unfamiliar with EUO's story I suggest that you read this article for background:

<http://seekingalpha.com/instablog/1107010-edward-vranic-cfa/4556266-petromark-can-stop-funding-terrorism-criminals-smuggling-oil>

The balance sheet as of March 31, 2016:

EUROCONTROL TECHNICS GROUP INC.

Condensed Consolidated Interim Statements of Financial Position (unaudited)
(Expressed in Canadian dollars)

As at,	Notes	March 31, 2016	December 31, 2015
ASSETS			
Current assets			
Cash and cash equivalents	6	\$ 6,828,491	\$ 2,155,501
Marketable securities	5	7,475,770	-
Amounts receivable	9	1,109,678	460,936
Current portion of receivable under earn out agreement	20	1,396,519	-
Inventories	10	528,909	467,721
Prepaid expenses		20,491	54,892
Assets of discontinued operation	20	-	3,946,223
Total current assets		17,359,858	7,085,273
Non-current assets			
Receivable under earn out agreement	20	5,293,904	-
Equipment	11	222,937	198,682
Deferred tax asset	20	-	2,109,000
Technology rights	12	223,045	254,909
Intellectual property	7	237,207	249,692
Total non-current assets		5,977,093	2,812,283
TOTAL ASSETS		\$ 23,336,951	\$ 9,897,556
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	13, 18	\$ 780,231	\$ 1,454,921
Taxes payable	20	403,000	-
Deposit on corporate transaction	20	-	250,000
Liabilities of discontinued operation	20	-	1,378,731
Total liabilities		1,183,231	3,083,652



In my report I estimated the impact of the post-tax benefit of the SICPA deal as well as the present value of the earn-out cash flows. Now that EUO has provided figures for both, it is possible to calculate its net cash value with precision. The company's working capital position is \$16.18 million while it estimates the present value of the long-term portion of the earn out payment to be \$5.29 million, applying a 10% discount rate. Based on 97.94 million fully diluted shares, its net working capital per share is 16.5 cents while that plus the PV of the earn out payment is 22 cents per share.

I get that EUO is in a difficult industry to understand and some shareholders wish that the company would do a better job in promoting itself. But it shouldn't be that hard to understand the investment thesis that it is trading below its net cash position and that it has a close-knit agreement with a leading billion dollar security firm in SICPA, as well as burgeoning relationships for prospective uses of its technologies with [Netafim](#) and [DigiFlex](#).

The fact that the company is trading at under 22 cents is a joke. The biggest worry for shareholders at this junction is that the company gets bought out too soon and at a price that is too low. SICPA hasn't even tried to hide the fact that it is accumulating shares, with a recent 100,000 share purchase driving it over 10% ownership and requiring the filing of an [early warning report](#).

I have seen other reports that value EUO at a higher price than my 55 cent target. Whether you believe the company is worth \$0.55 or \$0.74 or \$1.00, it is clearly worth more than \$0.19 for a multitude of reasons. I am going to be livid if SICPA or some other entity ends up buying the company for a very low price, say, \$0.25. But money made is money made, I suppose. I have no idea if SICPA is planning to purchase the company or if EUO management will accept a 25-cent buyout offer. But as a shareholder of a company with a strong balance sheet, relationships with billion dollar firms and technologies applicable to monopoly or burgeoning industries, my ownership share going into private hands at less than my fairly conservative target price is what I view as the biggest risk.

EUO is an investment with essentially no downside risk (unless you expect the company to literally flush money down the toilet) with a decent minimum of a 2-3x upside at 19 cents.

For those who have questions regarding my piece, feel free to follow the link to my blog on Seeking Alpha that I have provided above. There is a space for questions and comments.