



## MORALLTACH

A friend recently asked me if I had heard of a company called Moralltach. I told him that I had never heard of it. He then went on to tell me that he had been told that this was a locally owned and managed company that had recently listed on the Australian Stock Exchange. My friend asked me would I have a quick look at it and let him know what I thought. I told him I would see what I could find out.

I started off by doing a quick Google search. This search made me aware that there was information available on the Moralltach website, the National Stock Exchange of Australia (NSX) website and the boards.ie website.

I went to the Moralltach website first and I was surprised because all I found was a prospectus but at least the prospectus appeared to give lots of the basic information I needed. I therefore started reading it and here is some of the interesting things I discovered.

On page 13 there is a profile of Moralltach that states the following:

*Moralltach initially concentrated its main focus on the Irish property market including property development. The Company later focused on the Green Energy Market; in particular, the Waste to Energy Sector as it became apparent that good opportunities were available in the sector.*

*Moralltach began its life with an initial property portfolio at a value of €30,000,000. Within 18 months this had grown to over a Euros 100,000,000 property portfolio. The growth was rapid and well managed and the decision to establish Moralltach Global Plc and float it was taken. The Company now has a portfolio with independent valuations of Euro 650,000,000 and will look to develop and grow its existing portfolio.*

In other words I was quickly able to find out that Moralltach was a company with interests in property and waste to energy (WTE) with a portfolio independently valued at €650m. My initial reaction was one of surprise because €650m is big enough to normally get media attention and yet I hadn't seen anything in the business news.

It soon became clear to me however, that this was not as straight forward a business as it first appeared. On page 15 of the prospectus in a section titled "Business Model" I read the following:

*The Company's business model covering property development is based on a unique variant of the leaseback arrangement often used in real estate transactions.*

*Moralltach offers to purchase the property from the owner at an independently appraised value. The owner is paid with Shares of the Company's stock, priced at a premium price to the market.*

This gives the impression that they are giving shares in Moralltach for property but the shares are priced at a premium. There is a whole section explaining this but I found it confusing so I decided to move on.

They then described the business model for the waste to energy business:  
*Similar leaseback arrangements are also arranged on many of the Company's green energy projects.*

*In this profit sharing example, Moralltach owns the facility. It finances the WTE System, both construction and installation. The Operator manages the WTE System and pays an annual fixed payment to Moralltach as a yield.*

Once again, even after reading the detailed explanation, I was unsure as to exactly what they were doing but given that the prospectus was 85 pages long I hoped that I would eventually get to understand everything.

It was on page 21 that I was given a new surprise when I read the following:  
*Moralltach plans to allocate about 10% to 15% of its investment capital towards 'blue sky' projects which have the potential to earn high returns for its shareholders. While there are many projects that can be considered in this category, Moralltach intends to carefully scrutinize the market and profit potential for each project before committing funds to develop them.*

In other words this wasn't just a property and WTE company it was also a high tech venture capital type company!

On the same page I found the following table:

*Table 2: Targeted Asset Allocation*

<b>Target Area</b>	<b>€ Euros</b>	<b>Percent (%)</b>
<i>Property Development</i>	<i>230,000,000</i>	<i>35.4</i>
<i>Restructured Property</i>	<i>8,00,000</i>	<i>1.2</i>
<i>Green Energy</i>	<i>359,000,000</i>	<i>55.2%</i>
<i>Blue Sky</i>	<i>53,000,000</i>	<i>8.2</i>
<i>Total Capital:</i>	<i>€650,000,000</i>	<i>100.0%</i>

This table has a total capital figure of €650m so I presumed it was showing the breakdown by business unit of the €650m mentioned in the profile as being the independently valued portfolio. This gave me the impression that they had property worth €230m, WTE projects already valued at €359m and Blue Sky projects worth €53m. I was surprised by this because I never expected that they would have WTE projects worth €359m!

I just couldn't stop reading and I was delighted to find that the next section on page 22 was titled "Moralltach Current Portfolio". It stated the following:

*Moralltach completed the acquisition of all projects in the portfolio on 7 November 2016 through the issue of 109,159,848 Shares to the original owners of the projects. Set out below are descriptions of 3 sample businesses followed by project briefs for all projects in Moralltach's current portfolio.*

I hoped that the project briefs for all projects would give me a real understanding of what was involved. The first project brief was the following:

*Harrys Hotel – Kinnegad*

*Investment Summary: † Appraised Value: €3,000,000 † Capital employed: €1,500,000 † Annual Yield, first 5 years: 13%*

*Project Description: Harrys of Kinnegad is a 4-star hotel in the midlands of Ireland. It is an iconic hotel ideally located on the edge of the Capital City. It is located at the*

*junction of the M4 and M6 motorways and has thrived under current owners' stewardship for the past several years. The hotel incorporates 45 rooms, 2 functions rooms, nightclub, meeting rooms, a restaurant and bar. This hotel development and complex is just 10 years old and is in excellent structural and decorative condition.*

I presumed when I saw an "Appraised Value" of €3m that this meant Harrys Hotel has been independently valued at €3m but what did "Capital employed" mean? Once again I hoped that this would be defined somewhere further on in the prospectus.

The next few pages of the prospectus gave information on more property projects. I had a quick look at them all but on Page 31 I came across the first WTE project mentioned, McNally Anaerobic Digester Project:

*The Company has acquired the site and rights to develop an anaerobic digester at a strategic location in the Naul, Co. Dublin, Ireland. Anaerobic digesters of this size are new to the Irish power market but are becoming commonplace in the United Kingdom and in Europe, and have proven to be an efficient, sustainable and a superior form of green energy. The Company has first mover advantage regarding supply of raw material, the sale of power from the digester and the use of the best workers in the country regarding this type of power generation. Our site has full planning permission from the County Council. This means that we will be able to start construction as soon as we lodge the commencement notices. The site also has a supply contract with the Electricity Supply Board (ESB), a state board which is the largest supplier of electricity in the country. This contract is for fifteen years, has a set price and has upwardly only price adjustments and contracts the ESB to buy all power produced by the digester.*

*The construction cost for this digester is €5,200,000 Euro. It will take eight months to construct, and then take another six months to get up to full working capacity. In year one, once the digester gets up to full capacity it will generate €650,000 Euros worth of power and it will also have additional income from the sale of water, fertilizer and digestate. There will be additional income from the intake of waste. This will bring MLT's total income to €680,000 Euro per annum at end of year 2. The running costs for this digester per annum is €250,000 Euro. In year three, the management company is contracted to expand the capacity of the digester to 1200 kWh which will increase the income from the sale of power to €1.2m Euros per annum and also increase waste intake income, therefore enhancing MLT's income to €800,000. Asset Value: €33,802,000 Capital Required: €5,200,000*

For this particular project the term "Asset Value" is used rather than "Appraised Value". So where does the current value of €33.8m come from because it seems clear from this description that nothing has yet been built. Does having planning permission and a supply agreement with the ESB really mean that you can say that this asset is worth that much?

On page 45 I found the first "Bluesky" project, Advetec Ltd:

*Advetec Ltd utilises technology and unique bacteria to enable the reduction of waste to 5% of it's original quantity within 72 hours. It's application to all organic wastes such as foodstuffs, farm waste and local authority sewage plants is enormous across the globe.*

*Moralltach is acquiring a significant percentage ownership in Advetec Holdings Ltd as well as 100% of Advetec Ireland.*

From the sentence above it appears to state that Moralltach had not acquired any ownership of Advetec at the time of the prospectus.

Having looked at the projects I couldn't stop thinking about that statement in the profile on page 13: *The Company now has a portfolio with independent valuations of Euro 650,000,000*. Did this independently valued portfolio of €650m include the WTE projects where nothing had yet been built or the “Bluesky” project “Advetec” where Moralltach had not yet acquired an ownership stake? I was intrigued and so I read on.

The next section was titled Directors, Management and Governance. I was surprised by a couple of things here.

First of all there was only one independent member of the board, the Chairman. If Moralltach wanted to list in Ireland there would be an expectation that there would be a majority of independent directors rather than five executives and one independent non- executive.

Secondly the audit committee includes somebody that isn't a director. I don't think I've seen that before. Mrs Sritakul Wongluengon is a Thai national and as far as I can see she has no other connection to the company. I hope this Thai national knows about Irish property, WTE and technology!

Thirdly, on page 52 the following description of the Chairman gives the impression that he is a member of the audit committee: *Robert Morris Bryniak, Mission, British Columbia, Canada – Is Chairman of the Board and a member of the Audit Committee*. Yet on page 57 there is the following table of the members of the audit committee:

*Table 5: Audit Committee*

<i>Member</i>	<i>Position</i>	<i>Age</i>	<i>Directorship</i>
<i>Richard Barry</i>	<i>Member</i>	<i>46</i>	<i>Executive</i>
<i>Mrs Sritakul Wongluengon</i>	<i>Member</i>	<i>43</i>	<i>No</i>
<i>Tomas Brennan</i>	<i>Member</i>	<i>26</i>	<i>Executive</i>

A mistake like this does not create a good impression.

I did not see anything else in the prospectus that helped improve my understanding so I moved on to the NSX website where I hoped I would be brought up to date (because the prospectus had been published in November 2016).

In the announcements section of the NSX website I first of all discovered that Moralltach had successfully listed on the NSX on February 27<sup>th</sup> 2017.

I then found the Moralltach Annual Report for the year ending December 31<sup>st</sup> 2016 had been published on April 10<sup>th</sup>. From this I was able to look at their balance sheet and I discovered that Moralltach had investment properties with a value of €218m. In note 9 on page 28 I was able to see that the €218m was the purchase price and that these properties were independently valued at €290m as at Dec 31<sup>st</sup>.

What I could not discover was how many of these properties had been leased back to their original owners or whether or not there was any debt linked to any of these properties.

I was also unclear as to what had happened to the portfolio independently valued at €650m? For me the only conclusion I could reach from this was that at the balance sheet date there were no physical assets in any of the WTE projects or in the “Bluesky” projects because if there were any physical assets they would have to be

included on the balance sheet. In other words no physical progress had been made in building any of the WTE projects that had been valued at €359m in the prospectus.

Having read the Annual Report I then moved on and I was able to see on the NSX website that on May 31<sup>st</sup> Moralltach had held their AGM and that there was a presentation given at the AGM.

At the beginning of the presentation I found this:

*Now have €218M in assets with valuations = €650M in property & other businesses (green energy).* In other words there had been no change from the prospectus published last November stating that all those WTE planning permissions and ESB connections were worth €359m.

At the end of the presentation there was a slide titled “where we are headed” and on the slide they stated the following: *All major waste to energy projects should be underway, as the Company raises equity financing.* In other words they are saying that they don’t currently have the cash to build these WTE projects and they have to sell shares in order to get them underway.

This brought me to the end of what was available on the NSX website so I then turned my attention to the discussion on the blog, boards.ie. This discussion is all over the place with some people suggesting that Moralltach is a scam to others suggesting that a member of the advisory board has been involved in other unusual businesses. I don’t have the time to follow up on all the allegations so all I can do is take note that I’m not the only one trying to find out about what is going on at Moralltach.

There was also one thing mentioned on the blog that I had noticed before on the NSX website and that did seem strange to me and that was the fact that no shares had traded since the listing date. This brought me back to the issue of who owned the shares, what had they paid for them, were any of them trying to sell their shares and why had nobody bought any. I therefore went back to the annual report and the section on issued capital. Here I was able to see that in total 700m shares had been issued. 150m of those shares had been issued in December 2015 at €0.00033 each and a further 214m had been issued in July 2016 at the same price and another 72m had been issued in September 2016 once again at the same price but in November 2016 each share suddenly became worth €2 each because property assets of €218m were acquired with 109m shares and then for the listing on the NSX in late 2016 250,000 shares were sold for €2 each raising cash of €500,000.

With 700m shares in issue and each share now supposed to be worth €2, this meant the whole company was being valued at €1.4bn. If management was right in claiming that the portfolio was independently valued at €650m, why would anyone value the company at €1.4bn? Personally I think even €650m is being highly optimistic. I therefore think at an absolute max the shares are worth €0.93 each (€650m/700m) and are probably in fact worth a good bit less.

On the NSX website I can see that somebody is trying to sell 50,000 shares at Aus\$2.8 per share and there are other shares for sale at higher prices. (At an exchange rate of Aus\$1 = €0.7 this means somebody is trying to sell shares at €1.96 each). I can therefore understand why there has been no trading. I therefore worry that management will be unable to sell further shares (or treasury shares) to raise the cash necessary to start building the WTE projects as was stated in the AGM presentation.

## **CONCLUSION**

I have read the Moralltach prospectus, annual report and AGM presentation and I'm still confused about their unique leasing model. Not understanding their business model makes me nervous but even if I did understand it I think they will struggle to sell the additional shares (or treasury shares) necessary to fund their ambitious WTE projects and this will be the catalyst for a realisation that the shares are worth far less than €2 each.

The collapse of the Celtic Tiger highlighted the fact that there were a lot of amateurs playing around while times were good. I just hope that Moralltach isn't a sign that the amateurs are back!

I have told my friend to avoid buying shares. I think he will listen to my advice!