

# Mossberg's Investor Digest

## Best Idea Profile:

## Hydrogenics Corp. (NASDAQ:HYGS)

### DESCRIPTION:

Hydrogenics uses water electrolysis technology to generate hydrogen. It operates three businesses, all of which are growing. It is the leading generator of hydrogen and this segment generated 90% of 2012 revenues, representing 35% year-over-year growth. Its second business is fuel cells, or power generation for propulsion and back-up power use. Energy storage represents the biggest potential market. Hydrogenics product applications include hydrogen generators for industrial processes and fueling stations, hydrogen fuel cells for electric vehicles, and fuel cell installations for electrical power plants. It is also pioneering power-to-gas, which is a way to store and transport surplus energy using existing infrastructure. Hydrogenics is headquartered in Ontario with manufacturing facilities in Canada, Germany and Belgium, and service centers in Russia, Europe, U.S. and Canada.

### KEY INVESTMENT CONSIDERATIONS:

**Clean Energy Storage Market Growth** – Global interest in renewable energy is tremendous but remains somewhat stilted by the problem of storing excess energy. The relatively nascent market of hydrogen energy storage is surging. Some countries, such as Germany, are even mandating the use of renewable energy, as are an increasing number of states in the U.S. Unlike other energy storage technologies, Power-to-Gas can both store and transport energy. It converts excess electricity into hydrogen that can be stored in the existing natural gas pipeline network. The stored energy can then be discharged where and when it is needed. Hydrogenics is leading this charge; this past June the largest Power-to-Gas facility in the world went live with the first direct injection of hydrogen into this gas pipeline using Hydrogenics technology. There are 18 storage projects planned in Germany alone, and Hydrogenics has won seven of them. Most projects throughout Europe are in pre-startup or early operation phase.

**Impressive Investors and Operating Partners** – General Motors partnered with Hydrogenics because of its superior fuel cell technology, and now owns 6% of HYGS. Fuel cell business provided only \$4 million in revenue in 2012 but it is growing rapidly. Hydrogenics also gained a strong partner in Commscope, a leading manufacturer of cell tower equipment, when that company purchased a 28% stake in HYGS. Commscope uses Hydrogenics' fuel cells for back-up power in its cellular towers for superior efficiency and its first

commercial order signals activation of a substantial revenue stream.

**Financial Strength** – Hydrogenics is nearing a level of operation—approximately \$50 million in revenue—that will generate profit for the first time. Backlog of \$50 million has increased substantially, and in September the company received the largest single award in its history, although the customer has remained anonymous because of the sensitive nature of the program. The company will use current capital to fund the tremendous growth opportunities in projects across its product lines. Management stated recently “we are to-date stronger as a company than ever before given higher cash levels, a solid balance sheet and improved trading liquidity.”

### VALUATION:

With an expectation of compounded annual growth of 30% or better, Hydrogenics has an impressive outlook over an extended period of time. The stock should continue to reflect the increased interest in renewable energy storage and fuel cell technology.

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Investment Data (as of 8/13/13)

<b>Recent Price</b>	<b>\$11.14</b>
52-Week Range	\$4.62 - \$16.75
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	8.5 M
Average Trading Volume (3 mos)	131k
Market Capitalization	\$95 M
Cash	\$12 M
Long-term Debt	0
Enterprise Value (EV)	\$85 M
Book Value	\$0.86
TTM Revenue	\$39.9 M
P/ Revenue	2.4x
TTM EPS	\$(1.56)
P/ EPS	NA
TTM EBITDA	\$(9.9) M
EV/ EBITDA	(8.6)

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