

So near... PolyFuel Pre-Close Update

						Recommendation	N/A
						Price	13p
Pre-Close update							
Yr to Dec US\$m	2006A	2007E	2008E	2009E	2010E		
Sales	1.0	0.2	1.4	2.2	3.7	Market Cap:	£7m
EBITDA	-7.5	-10.5	-9.2	-11.4	-11.9	EV:	£-3m
adj. EPS (\$)	-0.41	-0.17	-0.15	-0.19	-0.23	Shares issued:	57m
EV/EBITDA (x)	0.2	0.6	n.a.	n.a.	n.a.	Daily ave. volume:	<1m
P/E (x)	n.a.	n.a.	n.a.	n.a.	n.a.		
Div. Yld (%)	0.0	0.0	0.0	0.0	0.0		

Significant Progress Evident

This morning PolyFuel has released a trading update ahead of its 2007 results. The statement highlights that PolyFuel has now cracked 4 of the 5 steps critical in driving portable fuel cells towards commercialisation.

No Test Market Activity in 2007

Disappointingly, there was no test market activity in 2007, which had been anticipated earlier in the year. The main goal of the portable fuel cell developers is to beat Lithium Ion battery run-time, weight and size and ultimately to give all-day run time performance. The key obstacle has been the size of the fuel cell systems needed to do this as well as managing water, the key byproduct of a fuel cell.

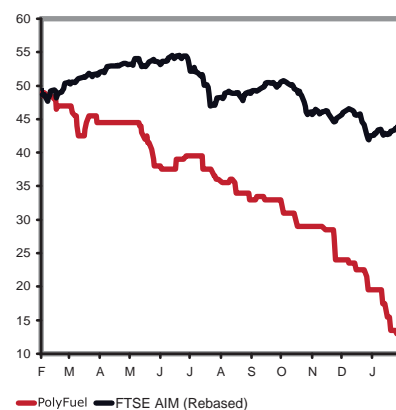
PolyFuel Appear to have Cracked One of the Remaining Obstacles

However, PolyFuel has today announced that it has now completed the 4th step of a 5 step programme to drive commercialisation. Essentially they have solved the water management problem by engineering an entirely new membrane, membrane electrode assembly and system design. Together it reduces the water by-product, recycles what water is produced and all within a far simpler, smaller and lighter package. This probably places PolyFuel on the leading edge of fuel cell system technology – not just membranes. PolyFuel will soon be in a position to provide a reference design to customers which should accelerate their commercialisation activities.

Decent Progress with Customers

From a customer stand-point, PolyFuel had a good year, increasing customers from 18 to 24, increased market share in the prototype portable fuel cell space from 30% to 44% and product shipments were up 3-fold.

Stock Performance



Performance	1m	3m	12m
Absolute %	-33	-55	-74
Relative* %	-37	-54	-71

Source: Datastream *Rel to FTSE AIM

Still Very Early Stage

PolyFuel are arguably nearly there and have made great progress against the odds. However the next issue will be evidence that customers take up the baton and produce (and market) commercial products. PolyFuel have no control over this part of the process. Investors need to remain patient.

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