

9 March 2020

Adam Forsyth

adam.forsyth@longspur.com

+44 (0) 131 357 6770

Price (SEK)	8.4
Shares in issue (m)	85
Mkt Cap (SEKm)	58
Net debt (SEKm)	83
EV (SEKm)	141
BVPS (SEK)	352.9

#### Share price performance

1m	-10.5%
3m	-24.2%
12m	-30.7%
12 m high/low	17.8/7.6
Ave daily vol (3m)	595,810

#### Shareholders

Sven Sahle	33.5%
AC Cleantech	15.9%
East Guardian Asset	12.0%
Miura Holding Ltd	10.0%
Gunnar Larsson	2.4%
Avanza Bank Ab	1.6%
Nordnet Ab	1.6%
Ulf Gundemark	0.6%
Erik Wigertz	0.6%
Patrik Nordenhed	0.5%
Total for top 10	78.6%
Free float	36.2%

**Next news** Ints Q3

#### Business description

Waste to energy for the metals industry



## FUNDING DE-RISKS OPPORTUNITIES

Swedish Stirling has announced fund raisings totally SEK 147m with a SEK 100m convertible and a SEK47m share issue. These funds remove any near-term funding issues and in our view will allow the company to fully develop the immediate opportunity in the South African ferrochrome industry. We also think the funds will allow the company to explore new opportunities in other industries. So we see the funding both de-risking the short term and also enabling long term development. We have adjusted our forecasts for the dilution impact but we have also compensated for the de-risking which leaves our base valuation unchanged at SEK 19.

#### Daniel Ek and David Zudy support convertible

The convertible loan will be funded by entrepreneurs Daniel Ek, CEO and founder of Spotify, and David Zudy. Attracting high profile “marquee” investors has tended to be helpful in the smaller company universe and we expect these names will further help to raise the profile of the company. The conversion price is SEK 8 and is due on 30 June 2025 with a 14% interest rate. At full conversion the resulting dilution would be 12.8%. The equity issue is priced at SEK 7 resulting in a dilution of 7.3%. This equity issue is under existing authorisation but the convertible will require approval with an EGM scheduled for 8th April. With undertakings in support from 71% of the shareholders we expect this to be a done deal.

#### Funding to fully develop opportunities

The company has signalled four areas where the funds will be deployed to augment existing efforts: continued product development, marketing, organisation in South Africa and IP protection. These are all beneficial but we particularly see increased spend on sales and marketing as helping to accelerate take up of the companies waste gas to energy product, the PWR BLOK. More resource for marketing will also allow the company to explore new opportunities. In our note following the company’s site visit to South Africa (Further Opportunity Emerges, Longspur Research 26 February 2020) we highlighted an enhanced longer-term picture with opportunities in the titanium dioxide industry and via conversion of semi-closed furnaces.

SEK,000 Dec	2018a	2019a	2020e	2021e	2022e	2023e
Sales	58,349	45,169	46,664	8,084	37,040	201,140
EBITDA	-13,484	-22,962	-35,089	-53,246	-25,567	-3,111
PBT	-22,262	-36,055	-61,718	-109,617	-90,668	-69,216
EPS	-0.3	-0.5	-0.7	-1.2	-1.0	-0.8
CFPS	-0.9	-1.5	-0.8	-1.8	-0.4	-0.3
DPS	0.0	0.0	0.0	0.0	0.0	0.0
Net Debt (Cash)	-5,716	82,721	127,811	212,872	300,145	378,342
Debt/EBITDA	0.4	-3.6	-3.6	-4.0	-11.7	-121.6
P/E	-29.8	-18.3	-12.5	-7.3	-8.0	-10.3
EV/EBITDA	-3.9	-6.1	-4.0	-2.6	-5.5	-45.3
EV/sales	0.9	3.1	3.0	17.4	3.8	0.7
FCF yield	-11.3%	-18.3%	-9.2%	-21.9%	-4.6%	-3.2%
Div yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

## IMPACT ON FORECASTS AND VALUATION

We see this significant funding as de-risking our business forecasts in the near term. There is scope to adjust these up as a result but we would rather see actual business develop before doing so. We have factored in a higher average interest cost and the higher number of shares which reduces FY 20 PBT to -SEK 61.7m from - SEK 55.6m and EPS to -SEK 0.67 from -SEK 0.65.

While there is a dilution impact on valuation we have also reassessed our WACC. Our initiation used a beta of 1.13 based on a peer group of similar companies. The median beta for this peer group has now fallen below 1.0. As a result and in consideration of the de-risking achieved by the fund raising we have now used a beta of 1.0 which fully offsets the dilution to see our base case valuation remain at SEK 19. Our high case valuation is slightly impacted by the dilution and moves to SEK 56 from SEK 62. However any acceleration of timings on additional markets would increase the high case valuation. Bringing forward new market entry by a year would take our valuation to SEK 71.

The risks to the valuation cases above are broadly unchanged with timing risk from a concentrated customer base the key risk. We earlier identified potential dilution if the company seeks additional funding but this the completion of today's fund raising both crystallises and removes this risk. There is some additional risk from exposure to the South African Rand.

## FINANCIAL MODEL

### Profit and Loss Account

SEK '000, DEC	2018a	2019a	2020e	2021e	2022e	2023e
<b>Turnover</b>						
PWR BLOK sales	0	0	0	0	0	162,811
Project income	0	0	1,010	8,084	37,040	38,329
Own work capitalised	57,334	44,540	45,654	0	0	0
Other	1,015	629	0	0	0	0
<b>Total</b>	<b>58,349</b>	<b>45,169</b>	<b>46,664</b>	<b>8,084</b>	<b>37,040</b>	<b>201,140</b>
<b>Operating profit</b>						
PWR BLOK sales	-14,453	-24,788	-40,515	-69,079	-70,355	-49,188
Project income	0	0	338	-2,218	26,737	28,026
Own work capitalised	0	0	0	0	0	0
Other	0	0	0	0	0	0
<b>Operating profit</b>	<b>-14,453</b>	<b>-24,788</b>	<b>-40,177</b>	<b>-71,298</b>	<b>-43,618</b>	<b>-21,162</b>
<b>P&amp;L Account</b>						
Turnover	1,015	629	1,010	8,084	37,040	201,140
Operating Profit	-14,453	-24,788	-40,177	-71,298	-43,618	-21,162
Investment income	0	0	0	0	0	0
Net Interest	-7,809	-11,267	-21,540	-38,319	-47,050	-48,054
Pre Tax Profit (UKSIP)	-22,262	-36,055	-61,718	-109,617	-90,668	-69,216
Goodwill amortisation	0	0	0	0	0	0
Exceptional Items	0	-90,351	0	0	0	0
Pre Tax Profit (FRS3)	-22,262	-126,406	-61,718	-109,617	-90,668	-69,216
Tax	-98	-620	0	0	0	0
Post tax exceptionals	0	0	0	0	0	0
Minorities	0	0	0	3,647	-5,135	-5,597
Net Profit	-22,360	-127,026	-61,718	-105,970	-95,803	-74,813
Dividend	0	0	0	0	0	0
Retained	-22,360	-127,026	-61,718	-105,970	-95,803	-74,813
EBITDA	-13,484	-22,962	-35,089	-53,246	-25,567	-3,111
EPS (c) (UKSIP)	-0.28	-0.46	-0.67	-1.15	-1.04	-0.81
EPS (c) (FRS3)	-0.28	-1.59	-0.67	-1.15	-1.04	-0.81
FCFPS (c)	-0.94	-1.53	-0.77	-1.83	-0.38	-0.27
Dividend (c)	0.00	0.00	0.00	0.00	0.00	0.00

Source: Company data, Longspur Research estimates

### KEY POINTS

- FY 20 shows initial electricity sales to Samancor pilot unit
- FY 21 sees initial electricity sales to Glencore growing in FY 22
- From FY 23 outright equipment sales start to grow and company moves into profitability at EBITDA level
- Operating costs increase in FY 20 to meet growth
- Interest rises with green loans and convertible

## Balance Sheet

SEK '000, DEC	2018a	2019a	2020e	2021e	2022e	2023e
Fixed Asset Cost	9,679	11,030	41,926	164,716	164,716	164,716
Fixed Asset Depreciation	-7,051	-8,215	-12,641	-30,031	-47,421	-64,811
Net Fixed Assets	2,629	2,815	29,285	134,685	117,295	99,905
Goodwill	0	0	0	0	0	0
Other intangibles	275,433	245,086	290,078	289,417	288,755	288,094
Investments	76	102	102	102	102	102
Stock	32,055	52,330	10,332	2,658	12,177	33,064
Trade Debtors	4,721	3,761	166	1,329	6,089	33,064
Other Debtors	3,870	5,427	288	289	290	530
Trade Creditors	-13,311	-2,252	-166	-1,329	-6,089	-33,064
Other Creditors <1yr	-30,482	-8,198	-642	-641	-640	-332
Creditors >1yr	-111	-752	-752	-752	-752	-752
Provisions	0	0	0	0	0	0
Pension	0	0	0	0	0	0
Capital Employed	274,880	298,319	328,691	425,757	417,227	420,610
Cash etc	29,732	36,862	134,593	218,067	130,793	52,597
Borrowing <1yr	394	1,061	0	0	0	0
Borrowing >1yr	23,622	118,522	262,404	430,939	430,939	430,939
Net Borrowing	-5,716	82,721	127,811	212,872	300,145	378,342
Share Capital	795	851	877	877	877	877
Share Premium	299,217	323,737	370,711	370,711	370,711	370,711
Retained Earnings	-19,394	-109,022	-170,740	-276,709	-372,513	-447,326
Other	-22	32	32	32	32	32
Minority interest	0	0	0	117,974	117,974	117,974
Capital Employed	274,880	298,319	328,691	425,757	417,227	420,610
Net Assets	280,596	215,598	200,880	212,885	117,082	42,268
Total Equity	280,596	215,598	200,880	212,885	117,082	42,268

Source: Company data, Longspur Research estimates

## KEY POINTS

- Working capital reverses FY 20 as Afarak payments made
- Working capital grows from FY 21 with Glencore units
- Borrowing increases in FY 19 with convertible issues and green loans
- Glencore project debt assumed by end FY 20
- Minority interest (Glencore project) from FY 21

## Cashflow

SEK '000, DEC	2018a	2019a	2020e	2021e	2022e	2023e
Operating profit	-14,453	-24,788	-40,177	-71,298	-43,618	-21,162
Depreciation	313	1,165	4,426	17,390	17,390	17,390
Provisions	0	0	0	0	0	0
Other	-7,704	661	662	662	662	662
Working capital	7,681	-52,514	41,710	7,672	-9,522	-21,435
Operating cash flow	-14,163	-75,477	6,620	-45,574	-35,088	-24,546
Tax paid	0	0	-620	0	0	0
Capex (less disposals)	-3,404	-1,351	-30,896	-122,790	0	0
Investments	-57,427	-45,796	-45,654	0	0	0
Net interest	0	-11,267	-21,540	83,302	-52,185	-53,651
Net dividends	0	0	0	0	0	0
Residual cash flow	-74,994	-133,891	-92,090	-85,061	-87,273	-78,196
Equity issued	0	25,075	47,000	0	0	0
Change in net borrowing	70,533	88,437	45,090	85,061	87,273	78,196
Adjustments	4,461	20,379	0	0	0	0
Total financing	74,994	133,891	92,090	85,061	87,273	78,196

Source: Company data, Longspur Research estimates

## KEY POINTS

- FY 20 sees working capital minimum point with outflows thereafter
- Project capex on Afarak and Glencore dominates until FY 21
- Investments represent own work capitalised

# Equity Research Disclaimers

## **Non-independent research**

This report has been commissioned by the issuer and prepared and issued by Longspur Research, in consideration of a fee payable by the issuer. It is Non-Independent Research and a marketing communication under the FCA's Conduct of Business Rules. It is not Investment Research as defined by the FCA's Rules and has not been prepared in accordance with legal requirements designed to promote Investment Research independence and is also not subject to any legal prohibition on dealing ahead of the dissemination of Investment Research. We do not hold out this research material as an impartial assessment of the values or prospects of the company.

Notwithstanding this, Longspur Research has procedures in place to manage conflicts of interest which may arise in the production of Research, which include measures designed to prevent dealing ahead of Research.

## **Minor non-monetary benefit**

This Research is a minor non-monetary benefit as set out in Article 12 (3) of the Commission Delegated Directive (EU) 2017/593. The Research is paid for by a corporate client of Longspur Research) and can be distributed free of charge.

## **Copyright**

Copyright 2019 Longspur Capital. This Communication is being supplied to you solely for your information and may not be reproduced, redistributed or passed to any other person or published in whole or in part for any purpose without the prior consent of Longspur Research. Additional information is available upon request.

## **Regulated by FCA**

Longspur Research is a trading name of Longspur Capital Limited, an appointed representative of Mirabella Advisers LLP, a limited liability partnership registered in England & Wales number OC384100 Authorised and Regulated by the Financial Conduct Authority, FCA FRN 606792. Longspur Capital is registered in England, company number 11011596.

## **No warranty as to accuracy or completeness**

All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified.

Opinions contained in this report represent those of the Longspur Research analyst at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. No representation or warranty is made as to the accuracy or completeness of the information included in this Research and opinions expressed may be subject to change without notice. Longspur Research does not undertake any obligation to revise such forward-looking statements to reflect the occurrence of unanticipated events or changed circumstances.

This report is solely for informational purposes and is not intended to be used as the primary basis of investment decisions. Longspur Research has not assessed the suitability of the subject company for any person. Because of individual client requirements, it is not, and it should not be construed as, advice designed to meet the particular investment needs of any investor. This report is not an offer or the solicitation of an offer to sell or buy any security.

Longspur Research has no authority whatsoever to make any representation or warranty on behalf of any of its corporate finance clients, their shareholders or any other persons similarly connected.

## **Information purposes only**

This Research is designed for information purposes only. Neither the information included herein, nor any opinion expressed, are deemed to constitute an offer or invitation to make an offer, to buy or sell any financial instrument or any option, futures or other related derivatives. Investors should consider this Research as only a single factor in making any investment decision. This Research is published on the basis that Longspur Research is not acting in a fiduciary capacity. It is also published without regard to the recipient's specific investment objectives of recipients and is not a personal recommendation. The value of any financial instrument, or the income derived from it, may fluctuate.

## **Take own advice**

The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Longspur Research's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

## **Longspur Research may have a position**

At any time Longspur Research or its employees may have a position in the securities and derivatives (including options or warrants) of the companies researched and this may impair the objectivity of this report. Longspur Research may act as principal in transactions in any relevant securities, or provide advisory or other services to any issuer of relevant securities or any company connected therewith.

## **Only for eligible counterparties and professional clients. Not for retail**

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document (nor will such persons be able to purchase shares in the placing).

**MAR Formal disclosure of conflicts**

This report has been commissioned by the issuer and prepared and issued by Longspur Research in consideration of a fee payable by the issuer. Fees are paid upfront in cash without recourse. A draft has been sent to the issuer for comment and it has been appropriately amended.

Neither Longspur Research nor the analyst have any holdings in the issuer. Longspur Research may from time to time provide the issuer with of consultancy advice.

See webpage for additional MAR disclosures

**GDPR**

For further information about the way we use your personal data please see our Third Party Privacy Notice [www.longspurresearch.com/privacy/](http://www.longspurresearch.com/privacy/) or at such other place as we may provide notice of from time to time. We may contact you about industry news, offers and information relating to our products and services which we think would be of interest to you. You can tell us you do not wish to receive such communications by emailing [michelle.elsmore@longspur.com](mailto:michelle.elsmore@longspur.com).

**Severability Applicable law**

Exclusion of Liability: To the fullest extent allowed by law, Longspur Research shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

Longspure Research  
10 Castle Street,  
Edinburgh. EH2 3AT  
UK

Longspur Capital  
20 North Audley Street,  
London. W1K 6WE  
UK

Longspur Developments  
110-640 8<sup>th</sup> Avenue SW,  
Calgary, Alberta,  
Canada. T2P 1\$