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Price (p)	16.1
Shares in issue (m)	92
Mkt Cap (£m)	1,485
Net debt (£m)	83
EV (£m)	1,568
BVPS (p)	352.9

Share price performance

1m	31.3%
3m	59.6%
12m	71.5%
12 m high/low	17.5/5.1
Ave daily vol (3m)	216,150

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%
Sven Sahle	33.5%

Next news Finals Q1

Business description

Waste to energy for the metals industry



PROGRESS ON THE GROUND

The Q3 results reflect a period of strong commercial progress and a building up to meet the expected demand that progress will bring. The company's ability to execute strategy despite the impacts of COVID 19. Given progress, we have reissued forecasts and our base case valuation remains unchanged at SEK 19. If the company can expand beyond South African markets we see a value of SEK 50 as possible.

Q3 numbers reflect spend ahead of production

The Q3 results reflect the progress of the company as it grows towards commerciality with higher costs impacting ahead of sales being realised. Expansion of personnel and other costs together with higher finance costs expanded the net loss of the period to SEK -21.7m from SEK -11.0m in the same period last year. There was also a SEK 1.5m impairment of inventory associated with the first generation of the company's PWR BLOK product. Cash and equivalents at the period end were SEK 102m, benefiting from the new share issue and new convertible loan.

Production of generation 3 expect to begin in new year

The company now has LoI's or MoUs representing potential orders of up to 241 PWR BLOK units. The company is moving towards serial production to fill these and expects the fully commercial PWR BLOK generation 3 to commence production just after the new year. This smaller unit will simplify production and reduce costs. Production will be further enhanced by the technical collaboration with ABB.

Company able to execute despite COVID 19 restrictions

Perhaps the standout feature of the results statement was the photograph on the front page. This shows the PWR BLOC installation at Samancor's TC smelter. Having visited the smelter in February and seen no more than the ground on which the installation was planned, it is a testament to the teams in Sweden and South Africa to see the unit in place. This has been achieved despite a very hard COVID 19 lockdown in South Africa.

We reissue forecasts with central valuation unchanged at SEK 19

When the company announced measures to combat the impact of COVID 19 we put our forecasts under review. Given the progress being made we have reissued forecasts today. We have attempted to reflect the impact of COVID 19 on the company which means an effective shifting to the right of cashflows rather than a loss of cashflows. With a stronger long term outlook as a result of the recent progress, the impact on our DCF based central valuation is unchanged at SEK 19 with a high case at SEK 50.

£,000 Dec	2019a	2020e	2021e	2022e	2023e	2024e
Sales	629	0	748	18,129	282,756	737,398
EBITDA	-22,962	-27,100	-55,533	-51,122	5,745	174,615
PBT	-36,055	-53,413	-129,162	-139,333	-83,748	83,994
EPS	-0.5	-0.6	-1.3	-1.4	-0.9	0.9
CFPS	-1.5	-0.5	-2.8	-0.6	-0.4	1.1
DPS	0.0	0.0	0.0	0.0	0.0	0.0
Net Debt (Cash)	82,721	106,572	198,091	309,555	407,643	372,126
Debt/EBITDA	-3.6	-3.9	-3.6	-6.1	71.0	2.1
P/E	-35.2	-27.7	-12.4	-11.2	-17.8	17.6
EV/EBITDA	-9.3	-8.7	-4.3	-4.6	41.2	1.4
EV/sales	338.1	#DIV/0!	316.1	13.0	0.8	0.3
FCF yield	-9.5%	-3.2%	-17.5%	-3.8%	-2.4%	6.7%
Div yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

FORECAST REVISIONS

Our forecasts were put under review when the company announced the measures it was taking to combat the impact of COVID 19 back in April. Swedish Stirling was able to reassure investors as to its ability to weather the impact financially with a series of measures including cost savings of SEK 1m per month. It was hoped that this could be done without damaging or jeopardising the business build up. Subsequent months have shown that the company has succeeded with real commercial progress being made with a MoU signed with Samancor for up to 135 PWR BLOKS, a LoI with Richards Bay Alloys for 18 PWR BLOKS and a LoI with Glencore in relation to its Lion smelter for up to 88 PWR BLOKS. The company has also begun to work on production execution with a collaboration agreement with ABB.

As a result of this progress we think there is now more clarity and we are reissuing forecasts to help investors better evaluate the company. Compared with our pre-COVID 19 numbers these forecasts represent an inevitable shifting to the right although we also see the end point as stronger given the progress made this year.

The changes are our attempt to best reflect the impact of COVID 19 on the company as we see it although we note that further change is possible. We have factored in the removal of the Afarak Mogale unit, the reduction in the cost base and a delay in commencing the deal with Glencore. We have cautiously assumed a delay of almost a year so that 2021 sees just a single PWR Blok unit deployed with 12 in 2022 and the remaining 12 of the 25 unit order in 2023. We also assume that the operating cost trajectory is restored in 2022.

Additionally given the recent progress with Samancor and with Richards Bay Alloys we have assumed a higher eventual market share in the South African ferro chrome market, rising from an assumed 33% to 50%. Given that the company now has some form of agreement with companies representing 97% of the available market this does not seem excessive.

We summarise the changes below and note that while the start of a recovery is seen in 2023 it becomes more marked in 2024 and beyond.

Forecast Revisions

	2020	2020	2021	2021	2022	2022	2023	2023
	Old	Revised	Old	Revised	Old	Revised	Old	Revised
Turnover	1,010	0	8,084	748	37,040	18,129	201,140	282,756
PBT	-61,718	-53,413	-109,617	-129,162	-90,668	-139,333	-69,216	-83,748
EPS	-0.67	-0.58	-1.15	-1.30	-1.04	-1.44	-0.81	-0.91

Source: Longspur Research

As this is effectively a shifting to the right of cashflows rather than a loss of cashflows. With a stronger long term outlook as a result of the recent progress, the impact on our long term DCF based central case valuation is unchanged at SEK 19. A new sales and marketing director is now focused on building opportunities beyond the South African ferrochrome industry. If the company can be successful in these wider markets our scenario work suggests a high case valuation of SEK 50.

The risks to the valuation cases above are broadly unchanged with timing risk from a concentrated customer base the key risk. There is additional risk from exposure to the South African Rand although we expect this to be partly mitigated through pricing.

FINANCIAL MODEL

Profit and Loss Account

SEK '000, DEC	2019a	2020e	2021e	2022e	2023e	2024e
Turnover						
PWR BLOK sales	0	0	0	0	246,683	700,097
Project income	0	0	748	18,129	36,072	37,301
Own work capitalised	44,540	45,654	0	0	0	0
Other	629	0	0	0	0	0
Total	45,169	45,654	748	18,129	282,756	737,398
Operating profit						
PWR BLOK sales	-24,788	-30,028	-65,026	-77,996	-39,071	128,569
Project income	0	-672	-16,730	650	18,594	19,823
Own work capitalised	0	0	0	0	0	0
Other	0	0	0	0	0	0
Operating profit	-24,788	-30,700	-81,755	-77,345	-20,478	148,392
P&L Account						
Turnover	629	0	748	18,129	282,756	737,398
Operating Profit	-24,788	-30,700	-81,755	-77,345	-20,478	148,392
Investment income	0	0	0	0	0	0
Net Interest	-11,267	-22,713	-47,407	-61,988	-63,270	-64,398
Pre Tax Profit (UKSIP)	-36,055	-53,413	-129,162	-139,333	-83,748	83,994
Goodwill amortisation	0	0	0	0	0	0
Exceptional Items	-90,351	0	0	0	0	0
Pre Tax Profit (FRS3)	-126,406	-53,413	-129,162	-139,333	-83,748	83,994
Tax	-620	0	0	0	0	0
Post tax exceptionals	0	0	0	0	0	0
Minorities	0	0	10,071	7,363	505	35
Net Profit	-127,026	-53,413	-119,091	-131,970	-83,243	84,029
Dividend	0	0	0	0	0	0
Retained	-127,026	-53,413	-119,091	-131,970	-83,243	84,029
EBITDA	-22,962	-27,100	-55,533	-51,122	5,745	174,615
EPS (c) (UKSIP)	-0.46	-0.58	-1.30	-1.44	-0.91	0.91
EPS (c) (FRS3)	-1.59	-0.58	-1.30	-1.44	-0.91	0.91
FCFPS (c)	-1.53	-0.52	-2.83	-0.62	-0.38	1.09
Dividend (c)	0.00	0.00	0.00	0.00	0.00	0.00

Source: Company data, Longspur Research estimates

KEY POINTS

- FY 21 sees first revenue from generation 3 unit sales
- FY 22 sees initial electricity sales to Glencore growing in FY 23
- 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

Balance Sheet

SEK '000, DEC	2019a	2020e	2021e	2022e	2023e	2024e
Fixed Asset Cost	11,030	27,836	242,113	242,113	242,113	242,113
Fixed Asset						-
Depreciation	-8,215	-11,154	-36,715	-62,276	-87,837	113,399
Net Fixed Assets	2,815	16,682	205,397	179,836	154,275	128,714
Goodwill	0	0	0	0	0	0
Other intangibles	245,086	290,078	289,417	288,755	288,094	287,432
Investments	102	102	102	102	102	102
Stock	52,330	10,000	246	5,960	46,480	121,216
Trade Debtors	3,761	0	123	2,980	46,480	121,216
Other Debtors	5,427	288	289	290	530	530
						-
Trade Creditors	-2,252	0	-123	-2,980	-46,480	121,216
Other Creditors <1yr	-8,198	-642	-641	-640	-332	-332
Creditors >1yr	-752	-752	-752	-752	-752	-752
Provisions	0	0	0	0	0	0
Pension	0	0	0	0	0	0
Capital Employed	298,319	315,756	494,058	473,551	488,397	536,910
Cash etc	36,862	176,233	378,819	267,355	169,267	204,784
Borrowing <1yr	1,061	0	0	0	0	0
Borrowing >1yr	118,522	282,805	576,910	576,910	576,910	576,910
Net Borrowing	82,721	106,572	198,091	309,555	407,643	372,126
Share Capital	851	877	877	877	877	877
Share Premium	323,737	370,711	370,711	370,711	370,711	370,711
	-	-	-	-	-	-
Retained Earnings	109,022	162,435	281,526	413,497	496,739	412,710
Other	32	32	32	32	32	32
Minority interest	0	0	205,874	205,874	205,874	205,874
Capital Employed	298,319	315,756	494,058	473,551	488,397	536,910
Net Assets	215,598	209,185	295,967	163,997	80,754	164,784
Total Equity	215,598	209,185	295,967	163,997	80,754	164,784

Source: Company data, Longspur Research estimates

KEY POINTS

- Working capital normalises in FY 22 as units delivered
- Working capital grows from FY 23 with Glencore units
- Borrowing increases in FY 19 with convertible issues and green loans
- Glencore project debt assumed by end FY 20
- Further green loan assumed in FY 21
- Minority interest (Glencore project) from FY 21

Cashflow

SEK '000, DEC	2019a	2020e	2021e	2022e	2023e	2024e
Operating profit	-24,788	-30,700	-81,755	-77,345	-20,478	148,392
Depreciation	1,165	2,939	25,561	25,561	25,561	25,561
Provisions	0	0	0	0	0	0
Other	661	662	662	662	662	662
Working capital	-52,514	42,042	9,752	-5,716	-41,068	-74,736
Operating cash flow	-75,477	14,942	-45,781	-56,839	-35,323	99,879
Tax paid	0	-620	0	0	0	0
Capex (less disposals)	-1,351	-16,806	-214,277	0	0	0
Investments	-45,796	-45,654	0	0	0	0
Net interest	-11,267	-22,713	168,538	-54,625	-62,765	-64,363
Net dividends	0	0	0	0	0	0
Residual cash flow	-133,891	-70,851	-91,519	-111,464	-98,088	35,516
Equity issued	25,075	47,000	0	0	0	0
Change in net borrowing	88,437	23,851	91,519	111,464	98,088	-35,516
Adjustments	20,379	0	0	0	0	0
Total financing	133,891	70,851	91,519	111,464	98,088	-35,516

Source: Company data, Longspur Research estimates

KEY POINTS

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

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