

Issuer-sponsored research available to all professional investors under MiFID II as a minor non-monetary benefit

12 November 2019

Adam Forsyth

adam.forsyth@longspur.com

+44 (0) 131 357 6770

Price (p)	9.1
Shares in issue (m)	80
Mkt Cap (£m)	58
Net debt (£m)	-5
EV (£m)	53
BVPS (p)	3.5

Share price performance

1m	-4.0%
3m	-31.2%
12m	-25.6%
12 m high/low	17.8/8
Ave daily vol (3m)	538,680

Shareholders

Sahle Sven	35.6%
AC Cleantech	17.0%
East Guardian Asset	12.8%
Miura Holding Ltd	8.4%
Avanza Bank Ab	8.1%
Seb	4.9%
Nordnet Ab	4.3%
Larsson Gunnar	2.5%
Swedbank Ab	2.1%
Svenska Handelsb'k	2.0%
	0.0%
Total for top 10	97.7%
Free float	61.9%

Next news Finals Q1

Business description

Waste to energy for the metals industry



PROGRESS CONTINUES

Swedish Stirling's Q3 results show continued progress towards full commercialisation. Income continues to reflect own work capitalised and the costs base shows the company gearing up ahead of greater volumes. These are also reflected as the company continues to evolve the product with greater streamlining. Financing new sales remains key and the period saw an innovative green loan being raised. The potential to use more of this type of financing creates options as the company continues discussions with a number of banks and financiers. Our forecasts are unchanged as is our central case valuation of SEK 18 per share.

Q3s reflect commercial build up

Swedish Stirling has posted its Q3 results to 30 September 2019. The company continues to undergo its transformation from initial deployment to commercial sales and these numbers reflect that and are largely unremarkable as a result. Income in the three month period represents own work capitalised at SEK 9.6m, slightly down on the same period a year ago. Operating loss reflects a build up of personnel ahead of commercialisation and came in at SEK -4.0m against SEK -3.2m. The company saw positive cashflow in the period thanks to proceeds from a SEK 53m convertible issue and a SEK 10m green bond. Cash and equivalents at the period end were SEK 66.4m.

Progress on production

These results are less about numbers and more about underlying business progress as the company moves towards commercial sales. The company's first commercial PWR BLOK installation at Mogale has been working as intended, providing a strong reference site for the business. In July, Swedish Stirling signed a major exclusivity agreement with Glencore for an initial volume of 25 PWR BLOK units. The volumes entailed will allow the streamlining of production and work here is already underway, including the design of a single common system for gas pre-treatment which yields lower operating and maintenance costs and extended service life.

Valuation unchanged

Our central case DCF valuation puts the shares at SEK 18 with high and low case values of SEK 52 and SEK 7. The key risks are the timing of commercial traction, customer concentration and financing. The company is making progress on financing and success here could be a key catalyst.

SEK,000 Dec	2018a	2019e	2020e	2021e	2022e	2023e
Sales	1,015	1,045	2,021	12,873	37,040	201,140
EBITDA	-14,506	-30,213	-29,678	-41,747	-18,689	3,939
PBT	-19,142	-40,740	-49,724	-78,449	-63,872	-44,862
EPS	-0.2	-0.5	-0.6	-0.9	-0.8	-0.6
CFPS	-0.9	-1.2	-1.1	-2.0	-0.3	-0.2
DPS	0.0	0.0	0.0	0.0	0.0	0.0
Net Debt	-4,591	78,260	187,220	267,011	338,572	405,072
Debt/EBITDA	0.3	-2.6	-6.3	-6.4	-18.1	102.8
P/E	-41.5	-20.9	-17.1	-11.1	-12.4	-16.9
EV/EBITDA	-4.1	-4.7	-4.8	-3.4	-7.6	36.1
EV/sales	1.0	3.1	2.9	11.0	3.8	0.7
FCF yield	-9.0%	-11.5%	-10.6%	-19.7%	-3.1%	-2.1%
Div yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

FINANCIAL MODEL

Profit and Loss Account

SEK '000, DEC	2018a	2019e	2020e	2021e	2022e	2023e
Turnover						
PWR BLOK sales	0	0	0	0	0	162,811
Project income	0	729	2,021	12,873	37,040	38,329
Own work capitalised	57,334	45,191	46,321	0	0	0
Other	1,015	316	0	0	0	0
Total ex own work cap'd	1,015	1,045	2,021	12,873	37,040	201,140
Operating profit						
PWR BLOK sales	-14,924	-31,232	-32,445	-49,711	-50,819	-29,480
Project income	0	57	1,348	2,571	26,737	28,026
Own work capitalised	0	0	0	0	0	0
Other	0	0	0	0	0	0
Operating profit	-14,924	-31,175	-31,096	-47,140	-24,082	-1,454
P&L Account						
Turnover	1,015	1,045	2,021	12,873	37,040	201,140
Operating Profit	-14,924	-31,175	-31,096	-47,140	-24,082	-1,454
Investment income	0	0	0	0	0	0
Net Interest	-4,218	-9,565	-18,628	-31,309	-39,790	-43,408
Pre Tax Profit (UKSIP)	-19,142	-40,740	-49,724	-78,449	-63,872	-44,862
Goodwill amortisation	0	0	0	0	0	0
Exceptional Items	0	0	0	0	0	0
Pre Tax Profit (FRS3)	-19,142	-40,740	-49,724	-78,449	-63,872	-44,862
Tax	0	0	0	0	0	0
Post tax exceptionals	0	0	0	0	0	0
Minorities	0	0	0	1,817	-5,135	-5,597
Net Profit	-19,142	-40,740	-49,724	-76,632	-69,007	-50,459
Dividend	0	0	0	0	0	0
Retained	-19,142	-40,740	-49,724	-76,632	-69,007	-50,459
EBITDA	-14,506	-30,213	-29,678	-41,747	-18,689	3,939
EPS (c) (UKSIP)	-0.24	-0.48	-0.58	-0.90	-0.81	-0.59
EPS (c) (FRS3)	-0.24	-0.48	-0.58	-0.90	-0.81	-0.59
FCFPS (c)	-0.90	-1.15	-1.06	-1.97	-0.31	-0.21
Dividend (c)	0.00	0.00	0.00	0.00	0.00	0.00

Source: Company data, Longspur Research estimates

KEY POINTS

- FY 19 and 20 show initial electricity sales to first two Afarak units
- 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 19 and 20 to meet growth
- Interest rises with green loans

Balance Sheet

SEK '000, DEC	2018a	2019e	2020e	2021e	2022e	2023e
Fixed Asset Cost	9,669	26,475	40,565	163,355	163,355	163,355
Fixed Asset Depreciation	-7,051	-7,908	-9,221	-14,509	-19,797	-25,085
Net Fixed Assets	2,619	18,567	31,345	148,846	143,558	138,270
Goodwill	0	0	0	0	0	0
Other intangibles	275,433	320,519	366,735	366,630	366,525	366,420
Investments	0	0	0	0	0	0
Stock	32,055	344	664	4,232	12,177	33,064
Trade Debtors	4,352	86	166	2,116	6,089	33,064
Other Debtors	961	287	288	289	290	530
Trade Creditors	-13,219	-172	-332	-2,116	-6,089	-33,064
Other Creditors <1yr	-30,399	-643	-642	-641	-640	-332
Creditors >1yr	0	0	0	0	0	0
Provisions	0	0	0	0	0	0
Pension	0	0	0	0	0	0
Capital Employed	271,802	338,988	398,224	519,356	521,910	537,952
Cash etc	29,666	72,648	7,570	96,314	24,753	8,252
Borrowing <1yr	0	0	0	0	0	0
Borrowing >1yr	25,075	150,908	194,790	363,325	363,325	413,325
Net Borrowing	-4,591	78,260	187,220	267,011	338,572	405,072
Share Capital	795	809	809	809	809	809
Share Premium	299,217	324,278	324,278	324,278	324,278	324,278
	-	-	-	-	-	-
Retained Earnings	135,025	175,765	225,490	302,121	371,129	421,588
Other	111,406	111,406	111,406	111,406	111,406	111,406
Minority interest	0	0	0	117,974	117,974	117,974
Capital Employed	271,802	338,988	398,224	519,356	521,910	537,952
Net Assets	276,393	260,728	211,003	252,346	183,339	132,880
Total Equity	276,393	260,728	211,003	252,346	183,339	132,880

Source: Company data, Longspur Research estimates

KEY POINTS

- Working capital normalises in H2 19 as Afarak units delivered
- 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
- Further green loan assumed in FY 23
- Minority interest (Glencore project) from FY 21

Cashflow

SEK '000, DEC	2018a	2019e	2020e	2021e	2022e	2023e
Operating profit	-14,924	-31,175	-31,096	-47,140	-24,082	-1,454
Depreciation	313	857	1,313	5,288	5,288	5,288
Provisions	0	0	0	0	0	0
Other	-4,113	105	105	105	105	105
Working capital	7,681	-6,152	-243	-3,736	-7,947	-21,435
Operating cash flow	-11,043	-36,365	-29,921	-45,483	-26,636	-17,496
Tax paid	0	0	0	0	0	0
Capex (less disposals)	-3,404	-16,806	-14,090	-122,790	0	0
Investments	-57,427	-45,191	-46,321	0	0	0
Net interest	0	-9,565	-18,628	88,482	-44,925	-49,005
Net dividends	0	0	0	0	0	0
Residual cash flow	-71,874	-107,927	-108,960	-79,790	-71,561	-66,501
Equity issued	0	25,075	0	0	0	0
Change in net borrowing	71,658	82,851	108,960	79,790	71,561	66,501
Adjustments	216	1	0	0	0	0
Total financing	71,874	107,927	108,960	79,790	71,561	66,501

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
- SEK 25m convertible assumed converted in November 2019

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/ 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.

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 8th Avenue SW,
Calgary, Alberta,
Canada. T2P 1\$