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Price (p)	9.0
Shares in issue (m)	85
Mkt Cap (£m)	61
Net debt (£m)	83
EV (£m)	143
BVPS (p)	352.9

Share price performance

1m	-15.1%
3m	-7.4%
12m	-20.7%
12 m high/low	17.8/8
Ave daily vol (3m)	602,066

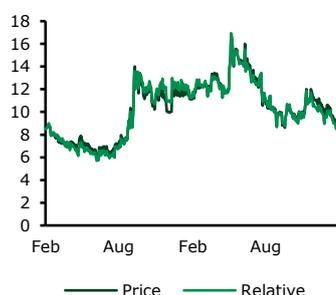
Shareholders

Sahle Sven	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	64.4%

Next news Ints Q3

Business description

Waste to energy for the metals industry



FURTHER OPPORTUNITY EMERGES

The recent signing of a commercial agreement with Glencore moves Swedish Stirling to near term commercial reality. But thanks to the recent site visit to South Africa we now also see an enhanced longer term picture with opportunities in the titanium industry and via conversion of semi-closed furnaces. With the company's first operating unit exceeding expectations we think Swedish Stirling is well placed to maximise its potential. To reflect the additional long term opportunities we have increased our high case valuation to SEK 62 from SEK 52.

South African site visit including existing and potential customers

Swedish Stirling recently hosted a site visit to South Africa. Tours of the existing operational PWR BLOK waste to energy project with Afarak Mogale and the prospective site at the Sumancor TC smelter were made and we met with industry representatives including executives from Sumancor and Glencore.

Operating project running well

Swedish Stirling has operated its first PWR BLOK installation for Afarak Mogale since May 2019. The project is taking gas from an older smelter with a variable gas stream. This is therefore a challenging installation and yet the performance has been above expectations. Notably a theoretical risk of sintering of hot dust particles in the waste gas has proved not to be a problem.

Samancor site benefits

Samancor hosted a visit to their major TC Smelter site. Swedish Stirling has an agreement to supply a pilot facility to be commissioned in Q2 2020. The site previously installed a gas engine based system which failed. Swedish Stirling will be able to make use of the balance of plant and infrastructure for the pilot and for future more sizeable installations. Samancor represents 10% of South Africa's power demand and has the potential to be a major client.

£,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	-55,624	-99,119	-79,863	-61,642
EPS	-0.3	-0.5	-0.7	-1.1	-1.0	-0.8
CFPS	-0.9	-1.5	-0.8	-2.0	-0.4	-0.3
DPS	0.0	0.0	0.0	0.0	0.0	0.0
Net Debt (Cash)	-5,716	82,721	168,718	243,281	319,748	390,371
Debt/EBITDA	0.4	-3.6	-4.8	-4.6	-12.5	-125.5
P/E	-32.0	-19.6	-13.8	-8.0	-9.0	-11.4
EV/EBITDA	-4.1	-6.2	-4.1	-2.7	-5.6	-46.1
EV/sales	0.9	3.2	3.1	17.7	3.9	0.7
FCF yield	-10.5%	-17.0%	-9.2%	-21.9%	-4.6%	-3.2%
Div yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

EXPANDED OPPORTUNITY FOR SWEDISH STIRLING

While the ferro chrome market represents strong near term growth potential, the overall market is finite. We have already identified significant additional markets in the wider ferro alloys industry and in gas flaring (See Longspur Research “Stepping on the Gas” 24 October 2019). Speaking with industry experts on the visit we have identified two further significant opportunities for the Swedish Stirling technology.

Firstly the current equipment only works with closed electric arc furnaces. These represent 36% of all ferro chrome furnaces with open furnaces accounting for 34% and semi closed accounting for 29%. These later are capable of conversion to fully closed furnaces. The investment case for this can be marginal but with the addition of a PWR BLOK energy system the case can be swung. This could double the opportunity for Swedish Stirling in South Africa alone.

South Africa is also the world’s second largest source of titanium dioxide. Titanium ore (ilmenite) is smelted in similar electric arc furnaces to ferro alloys and the Swedish Stirling solution is therefore just as viable. It is estimated that the opportunity could again be equal to the existing South African ferro chrome market.

FULL YEAR RESULTS REFLECT A COMPANY IN TRANSITION

Swedish Stirling also announced its full year results last week. These were broadly in line with our expectations and continue to reflect a company moving towards first real sales. The reported numbers were distorted by a non-cash write-down of SEK 76.1m of intangible fixed assets, representing the company’s decision to exit the solar energy business. Adjusting for this puts underlying EBITDA at an improved -SEK23m against our forecast of -SEK30m, despite higher labour costs as the company builds resources for growth. The company has also revalued the market value of the loan and option component of its two convertible loans to reflect the early stage of the business. This has resulted in a non-cash finance charge of SEK14.2m. Adjusting for both the non-cash items would put PBT at -SEK36.1m against our forecast of -SEK40.7m.

FORECAST CHANGES

We are adjusting our forecasts to reflect the higher labour charges, revised capex timings and working capital moves. We have also factored in more cautious start times at the Samancor pilot and Glencore but note that these have now been de-risked by actual contracts. EBITDA loss in 2020 widens as a result to -SEK35.1m from -SEK29.7m with similar changes in future years. This is more than offset by a working capital reversal in 2020 so that the impact on our DCF valuation is a small positive with our central case valuation rising to SEK19 from SEK18.

VALUATION AND RISKS

In addition to the changes to our central case valuation we have also re-examined our high case valuation which originally assumed a higher share of the South African ferro chrome market plus some additional longer term sales in the wider ferro alloy market and in gas flaring. We have increased our assumptions here to capture some of the opportunity in titanium dioxide and with semi close furnaces. This increases our high case valuation to SEK 62 from SEK 52. The risks to the valuation cases above are broadly unchanged with timing risk from a concentrated customer base and potential dilution if the company seeks additional funding being the two key risks we see. There is some addition risk from exposure to the South African Rand.

FINANCIAL MODEL

Profit and Loss Account

SEK '000, DEC	2018a	2019a	2020e	2021e	2022e	2023e
Turnover						
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
Total	58,349	45,169	46,664	8,084	37,040	201,140
Operating profit						
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
Operating profit	-14,453	-24,788	-40,177	-71,298	-43,618	-21,162
P&L Account						
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	-15,447	-27,822	-36,244	-40,480
Pre Tax Profit (UKSIP)	-22,262	-36,055	-55,624	-99,119	-79,863	-61,642
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	-55,624	-99,119	-79,863	-61,642
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	-55,624	-95,472	-84,997	-67,239
Dividend	0	0	0	0	0	0
Retained	-22,360	-127,026	-55,624	-95,472	-84,997	-67,239
EBITDA	-13,484	-22,962	-35,089	-53,246	-25,567	-3,111
EPS (c) (UKSIP)	-0.28	-0.46	-0.65	-1.12	-1.00	-0.79
EPS (c) (FRS3)	-0.28	-1.59	-0.65	-1.12	-1.00	-0.79
FCFPS (c)	-0.94	-1.53	-0.83	-1.97	-0.41	-0.29
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

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	-6,314	87,658	11,190	568
Borrowing <1yr	394	1,061	0	0	0	0
Borrowing >1yr	23,622	118,522	162,404	330,939	330,939	390,939
Net Borrowing	-5,716	82,721	168,718	243,281	319,748	390,371
Share Capital	795	851	851	851	851	851
Share Premium	299,217	323,737	323,737	323,737	323,737	323,737
Retained Earnings	-19,394	-109,022	-164,646	-260,118	-345,116	-412,355
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	159,974	182,476	97,478	30,239
Total Equity	280,596	215,598	159,974	182,476	97,478	30,239

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
- Further green loan assumed in FY 23
- Minority interest (Glencore project) from FY 21

Cashflow

£ '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	-15,447	93,800	-41,379	-46,077
Net dividends	0	0	0	0	0	0
Residual cash flow	-74,994	-133,891	-85,997	-74,563	-76,467	-70,622
Equity issued	0	25,075	0	0	0	0
Change in net borrowing	70,533	88,437	85,997	74,563	76,467	70,622
Adjustments	4,461	20,379	0	0	0	0
Total financing	74,994	133,891	85,997	74,563	76,467	70,622

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

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