Cindrigo Holding Ltd.
Cindrigo to seize global renewable opportunities

Andreas Eriksson | 2021-XX-XX XX:00 |

With top level experience of international business development and national energy policy and administration, the Cindrigo team aims to build a diversified player within renewable energy. Based on a rollout of Waste to Energy (WtE)-plants in Ukraine, yielding 38 MUSD each per year, Cindrigo plans a rapid global expansion into adjacent technologies. Not accounting for the risks associated with execution and delays from today until the first plant is operational, a successful rollout from 2024 justifies a fair value of 2,29 – 2,56 GBP per share in 2024. In addition, the option agreement to acquire a geothermic plant in Iceland provides near term cash flows and supports the broader play of horizontal expansion into other renewable technologies, adding layers of value to the high-margin base of WtE-plants.

New law creates opportunities for foreign investors

Faulty waste management is a growing problem globally. In line with new UN guidelines and EU regulations, waste can be used to produce electricity, and the global Waste to Energy industry is expected to grow at a CAGR of 4.6% to 50 billion USD in 2027. The Ukrainian government has addressed the issue of waste management, with a new law that facilitates establishment in the sector for foreign investors. Cindrigo now looks to build the country's first modern WtE-plant outside Kyiv, followed by a rollout in the region, where Ukraine alone has room for over 100 plants.

Waste to energy to cash flow

For the construction, Cindrigo has partnered up with one of Chinas biggest energy solution providers, China Energy (CE), that will take on full "turnkey" responsibility together with a third-party financier. Cindrigo will take a 20% stake during the construction, which will consolidate to a 51% stake once completed, with an option to acquire an additional 24%. With a capacity of 1000 tons waste per day, we expect yearly revenues of about 38 MUSD and an operational cash flow of about 30 MUSD, based on a PPA with the Ukrainian government regulating tipping fees of 4 EUR/ton, and an electricity tariff (linked to inflation) at 0,20 EUR/kWh. Due to the pandemic, the final agreement has been delayed but is expected to be finalized in the next 6-9 months, with another 24-26 months until the plant is operational.

High potential option with wider expansion

We expect the launch of five WtE-plants in Ukraine within our forecast period, one in 2024 and two per subsequent year, all with structures similar to the Kyiv Project. Overlooking that project risks are difficult to assess and investors especially subjected to management execution capability (our estimation is a 50 – 70% likelihood of succeeding), we discount the future cashflows at a discount rate (WACC) of 12%, arriving at a present value in 2024 of 2,29 GBP per share, while a peer multiple valuation of 10x EBITDA 2026 supports a fair value of 2,56 GBP per share. In addition, Cindrigo has a binding option agreement to acquire an operational geothermic energy plant in Iceland with an EBITDA of 20 MUSD, which both offer cash flows sooner than the WtE project and support Cindrigo's broader plan to expand into other verticals of renewable energy, also covering solar power and hydrogen. All in all, we see the Ukrainian WtE-rollout as a solid fundamental driver for revaluation, while the ambitious expansion plan provides considerable structural expansion potential on top.

Cindrigo

Fair Value, GBP	**-**
Current Price, GBP	-
Shares (M)	171,1
Mkt Cap (MGBP)	-
Net Debt (MGBP)	-
EV (MGBP)	-
Market	London Main Market

MGBP	2024e	2025e	2026e	2027e
Revenue	38	116	197	281
EBITDA	32	99	169	241
EBIT	28	87	147	211
EPS Adjusted	0,13	0,47	0,83	1,22
Sales Growth, %	-	206%	70%	43%
EBITDA Margin, %	86%	86%	86%	86%
EBIT Margin, %	75%	75%	75%	75%
EV/Sales	8,5	4,0	2,2	1,5
EV/EBITDA	9,9	4,6	2,6	1,7
EV/EBIT	11,3	5,3	2,9	1,9
P/E	7,7	2,1	1,2	0,8

Source: Emergers

A brief history

Cindrigo is renewable energy company based on Swedish expertise and has a long track record of delivering high quality energy facilities. Composed of well-known names in the industry, such as former Minister of Energy and Minister of Interior Jörgen Andersson, IT-entrepreneur Dan Olofsson with a business of over 600 employees based in Ukraine, and former CEO of Eniro Lars Guldstrand who has over 35 years of experience from executive positions globally, Cindrigo now seeks to establish themselves at the top of the value chain and become an IPP (Independent Power Producer). A first WtE-project (Waste to Energy) is planned to the outskirts of the Ukrainian capital Kyiv.

Using the international network provided by the management, Cindrigo have established contact with the Ukrainian government and have, since a couple of years back, a verbal contract (now converted to a formal contract under the new investment law) in place in which Cindrigo is allowed to build a WtE-plant in close relation to Kyiv. The contract also includes the PPA (Power Purchase Agreement) of which the electricity, and potential heating, will be sold back to the Ukrainian government and energy companies.

The management have a vision to expand Cindrigo into a solid player with several projects in different niches of renewable energy, based on a core of WtE-plants in Ukraine. Other possible verticals would be other renewable energy industries where Cindrigo can utilize its experience from managing various projects and focus on industries where the technical competence is of importance and the personnel intensity is low. A listing on the London Main Market through a reverse takeover of Challenger Acquisitions Limited in December 2021 has made Cindrigo more accessible to external capital as they look to execute their strategy.

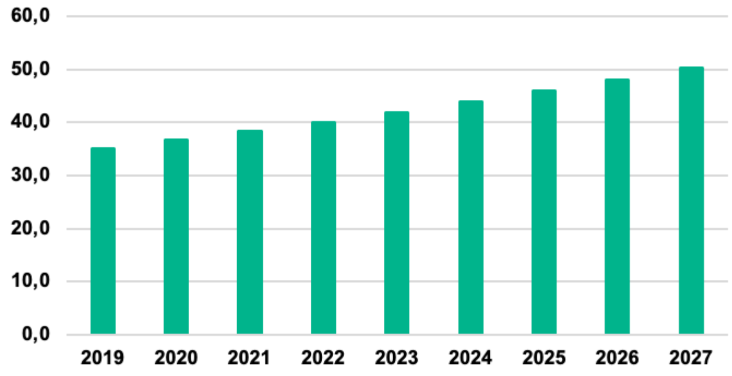
WtE – a billion-dollar industry

According to market research firm Allied Research, the global WtE market was valued at 35.1 billion USD in 2019 and is assumed to grow to 50.1 billion USD in 2027, representing a CAGR of 4.6%. The numbers represent the global CAGR, and many eastern European countries are expected to show a more rapid growth due to new regulations and guidelines. The latest COP 26 UN Climate Change Conference taking place in November stated that an increased electrification is one of the key components to deal with the climate crisis, and that is why we believe we will continue to see big amounts of capital flow to the renewable energy sector, where the WtE should catch some tailwind, and an even bigger upswing is expected for industries like geothermic, solar power and hydrogen gas.

According to a new directive from the European Union, landfilling of combustible material must be phased out within the decade. There is a number of European countries with substandard capital investments in this area, and the WtE-capacity is thereby low. Greece for example, have none, and illegal landfills are operated to a great extent in many of these countries.

Consequently, we see ample opportunities for Cindrigo to establish WtE-plants throughout Eastern and Southern Europe as well as in Asia and South America.

WtE Market Growth 2019 – 2027 (billion USD)



Source: Allied Market Research

The Kyiv project

The first project is a WtE-plant in Kyiv, Ukraine. Using a well proven technique, of which over half of the worlds WtE-plants uses, Cindrigo will build a plant partnering up with one of China's biggest solution providers for the energy industry, China Energy. The time for construction and to finalize the contract is estimated to about 30 months, which has been delayed due to the pandemic. On completion Cindrigo will generate revenue through tipping fees and electricity sales to the state power company, where Cindrigo through a pre-agreed PPA will sell the electricity at 0,20 EUR per kWh, a tariff which also will be linked to inflation. The new law of foreign investments also grants Cindrigo a tax exemption, where the first 15 years (construction included) will be exempted from tax.

Key Assumptions Kyiv Plant

Total investment (MUSD)	150
Annual CF (MUSD)	30
OPEX (% of sales)	14%
Capacity (tons MSW/day)	1000
Tipping Fee (EUR/ton)	4
Daily production (kWh)	450 000
Tariff (EUR/kWh)	0,2

Source: Emergers

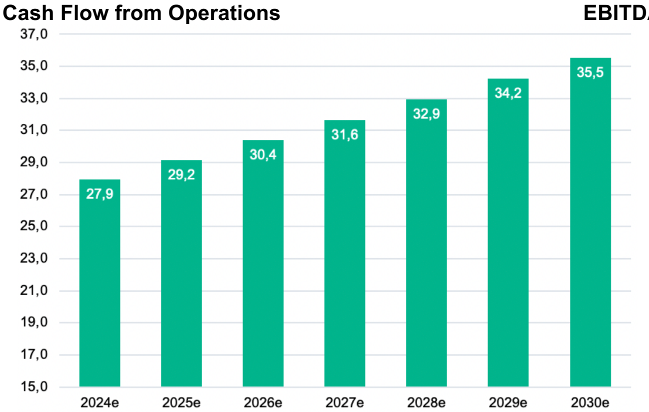
During the "Road and Belt Forum" in Beijing on 25 April 2019, where Cindrigo was the signing company on stage, an engineering, procurement and construction (EPC) contract was signed between Cindrigo and China Energy, where China Energy takes on full "turn-key" responsibility for the project, meaning Cindrigo won't take either technical, construction or implementation risk for the project. China Energy will also be responsible for the entire financing together with a third-party lender, which is estimated to 150 MUSD.

To meet financing requirements, Cindrigo will take on a 20% holding in the SPV during the construction phase, where China Energy and the financial partner holds the remaining 80%. Once completed, Cindrigo's stake will increase to 51%, with an option to acquire another 24% share held by China Energy's financing partner, based on the invested amount plus agreed interest. The agreement struck also includes a grace period on the loans during the construction phase.

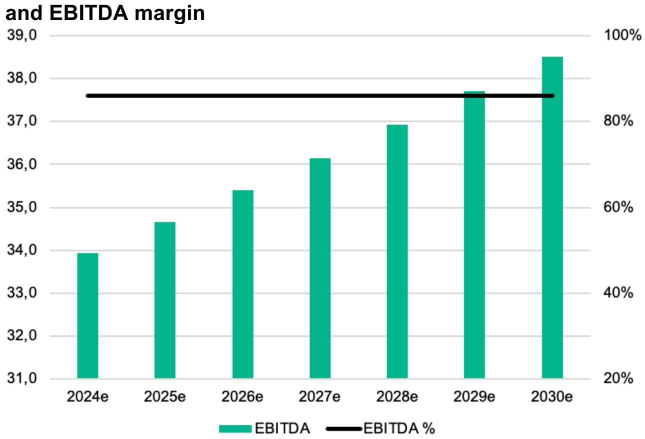
Cindrigo estimates that the Kyiv plant will generate about 38 MUSD per year from incinerating 1000 tons MSW per day. Revenues comprise the tipping fee and sales of electricity. Due to the nature of the system used, all heat produced from the incineration will not end up producing electricity, and Cindrigo has an option to install heat distribution systems to supply households and industries with district heating. Which is something Cindrigo opted out of with the Kyiv project, to prioritize speed of construction.

Kyiv Plant - Operating Cash Flow and EBITDA

Cash Flow from Operations



EBITDA and EBITDA margin



Source: Emergers

Rollout plan

With the Kyiv plant initially having a capacity of 1000 tons MWT per day through two lines á 500 tons a piece, Cindrigo can in the future look to build entirely new plants, or to expand existing ones with additional lines. There are some synergy effects obtained expanding an existing plant considering management density, lower capital expenditure, land regulations and infrastructure, leaving Cindrigo with options and a flexibility for future projects. The Ukrainian government has stated that several WtE-plants can be built in Ukraine under similar circumstances and arrangements as the Kyiv project. Each WtE-plant will be set up in its own SPV (Special Purpose Vehicle), giving Cindrigo freedom to seek favorable partners for each upcoming project.

Cindrigo's vision is to have seven WtE-plants operational by the end of 2026, with several additional projects in the pipeline, both in Ukraine and in other countries, whilst also expanding their business into other renewable energy sectors. We believe, that with management's combined experience and network, the expansion into other renewable industries will be successful, while our estimate for the WtE-roll out has a slower pace, with the first one operational by 2024 and then two per subsequent year.

Rationale for future M&A

In light of the fact that cash flows from the WtE-plants are some 30 months away, Cindrigo has a plan to expand its business into other renewable energy sectors, looking to build a larger player within renewables active in several verticals. Industries that have been identified as suitable first steps are solar power, geothermic and hydrogen gas, where Cindrigo seek projects that are operational, or close to operational in order to generate cash flow earlier. These industries are suitable because of their high technical thresholds as well as low personnel density. Other advantages approaching these types of projects could be the possibility to issue green bonds, and thereby more easily accessible (and advantageous) financing.

Cindrigo has already identified a number of suitable projects where they are looking at different structures to best benefit both sides. Broadening the business would decrease both the country specific risks as well as sector risks, spreading the eggs in several baskets. As well as that cross-sector synergies can be obtained, where for example hydrogen gas can be produced as a “rest product” in some of these areas.

Valuation and Comparable Peers

This valuation only covers the WtE-plants in and outside of Ukraine and is based on the assumption that management will be successful in constructing the first operational plant by 2024 and then rolling out two plants per year, up to nine plants within our forecast period. While we believe that Cindrigo will be successful in their broader plan to expand into other renewable verticals, cherry picking profitable projects made possible by managements solid experience, this segment on valuation only reflects the WtE-project. Should management be successful with their long-term plan, which of course is associated with a higher degree of uncertainty, the potential is considerably higher.

With the predictability of future cash flows of each WtE, a DCF-valuation is particularly suited to value Cindrigo’s business. We have based the valuation on nine plants (with the same assumptions for all), one launching in 2024, and then two subsequent year. Using a discount rate (WACC) of 12%, starting from 2024, and a terminal value of 10x EBITDA, our DCF indicate a total NPV of 1766 MGBP in 2024. With regards to Cindrigo’s 51% stake in each plant and net debt, the DCF supports a NPV of 391 MGBP in 2024. Which translates to, with all the outstanding options and convertibles converted into shares, there will be a number of 171 million shares outstanding, resulting in a fair value of 2,29 GBP per share in 2024.

There are several comparable listed companies who operates in the waste management area. Notable, the Swedish VC-firm EQT purchased the American giant Covanta in September of 2021 at a price tag of 5.3 billion USD. Other industry colleagues are valued at EV/EBITDA in a range of 7.0 – 21.7, with an average of 13.3x EBITDA.

Comparable Listed Peers

	Country	Market Cap	EV	Revenue (M)	EBITDA (M)	CAGR 1y	EBITDA% Avg. 1y	EV/S	EV/ EBITDA	Stock dev. 1y
Augean	Great Britain (GBP)	389	386	88	27	-14,8%	2,3%	4,4	14,1	95,3%
Biffa	Great Britain (GBP)	1 219	1 695	1 042	78	-10,4%	11,7%	1,6	21,7	79,7%
Covanta	USA (USD)	2 689	5 119	2 034	357	7,2%	16,0%	2,5	14,3	92,8%
DS Smith	Great Britain (GBP)	5 213	6 977	5 976	755	-1,1%	9,7%	1,2	9,2	31,1%
Renewi	Great Britain (GBP)	585	1 004	1 441	143	-8,6%	11,6%	0,7	7,0	248,1%
Suez SA	France (EUR)	12 375	19 921	17 209	2 119	-4,5%	14,5%	1,2	9,4	23,8%
Waste MGM	USA (USD)	67 223	79 752	17 320	4 605	15,5%	26,6%	4,6	17,3	40,1%
Average								2,3	13,3	
Median								1,6	14,1	

Source: Emergers

Cindrigo differs from these peers in the sense that they are more of a project-based company, owning only the building/projects itself, not getting involved in any labor and equipment heavy work such as garbage collection or any of the other activity surrounding waste management. Running a very slim and cost-efficient type of business, margins are estimated at higher levels than industry peers. Although, despite the high projected growth Cindrigo will operate their WtE-plants in countries associated with uncertainty, and because of their initial smaller size, a discounted multiple is justified. Where a goal multiple of 11x EBITDA 2026 indicates a fair value of 2,56 GBP per share.

Overall, our combined DCF and peer multiple valuation supports a fair value range between 2,29 – 2,56 GBP per share for the WtE-business, assuming a 51% ownership in the two plants launched each year from 2024. The potential of value adding factors such as district heating and biogas, and the fact that Cindrigo looks to establish themselves in other verticals in the renewable energy sector is also something to bear in mind, giving the stock further long-term upside potential.

Scenario analysis

Additional value adding factors

The current tipping fee of 4 EUR per ton is heavily discounted, compared to the 80 EUR per ton Poland is paying Sweden for waste management. There are scenarios where Cindrigo could import waste from surrounding countries, at higher tipping fees. Although, Cindrigo cannot completely abandon the Ukrainian MSW and still expect the beneficial electricity tariffs.

Other potential value adding factors not taken into consideration in this analysis, is the option to sell the excessive heating that arises with the incineration which is something that Cindrigo has opted out of in the first SPV to prioritize speed to operation. Advanced sorting machines can also be added to sort the scrap metal found in the MSW, metal that can be sorted and resold. As well as separating the less energy intense MSW, such as food waste, and creating biogas instead, adding further value to the business.

Proof of concept and time sensitivity

Important for Cindrigo is that the execution of the Kyiv project goes somewhat according to plans. Both because of the need for cash flow, but also because of the plant's function as a PoC (Proof of Concept) for future rollout. To illustrate the company's value sensitivity to time, we have constructed a base, a bull, and a bear case.

Assumptions Bull, Base and Bear

	Bull	Base	Bear
No. of plants 2026	9	5	3
Tipping fee 2026 (EUR/ton)	10	7	5
OPEX (% of sales)	12%	14%	14%
Fair Value Market CAP (MGBP)	685	391	133
Fair Value Share (GBP)	4,01	2,29	0,78

Source: Emergers

The bull case illustrates Cindrigo's success in exceeding their timetable, where a total of nine plants is operational by the end of 2026. Higher profitability due to value adding factors such as significantly higher tipping fee gradually, resulting in a total value of Cindrigo's 51% stake of 685 MGBP, or 4,01 GBP per share. A number without regard to the potential of a wider rollout into other renewable energy projects.

The base case is based on our forecast of the rollout. One plant operational by 2024, two plants by 2025 and two plants by 2026 and so on, at previously stated assumptions.

The bear case illustrates a scenario where the pandemic takes a new hold of the world, hindering the Chinese to travel and delaying the construction, making the first plant operational by 2025 and a two in 2026. The risk of the Ukrainians reducing their environmental ambitions could result in additional plants not being built as expected. With only two plants operational by 2026 and a higher OPEX than anticipated, the value of Cindrigo's 51% would be 133 MGBP, or 0,78 GBP per share.

Risks

Country specific risks: Operating in a country like Ukraine, with somewhat instable political and societal foundation, is a risk factor. The underlying conflict with Russia and former presidents accused of corruption is something that has embossed the country for years. Even though the Ukrainian government has taken promising steps the last few years where both IMF and the World Bank has revaluated Ukraine's financial situation, there is a risk that they will reduce their efforts to make environmental progress. Expanding the business outside of Ukraine, (according to company plans), this risk will be mitigated.

Partner risk: There are risks associated with Chinese EPC-contractors and banks, both due to timeline and due to political differences. The Chinese has been very limited to travel during the pandemic, and with a staggering infection rate in eastern Europe, new actions from the Chinese government would not be surprising. There could be even further delays as pandemic outlook is uncertain. The partner risk is somewhat mitigated due to the fact that Cindrigo has several options regarding who they choose to partner up with. They are not compelled to China Energy other than the first SPV.

Key positions: The success of Cindrigo's future projects and future expansion into other markets is tightly linked to a few key people, based on these people's network. Therefore, the company is sensitive to personnel and management turnover.

Corporate Governance

Chairman of the Board: Jörgen Andersson is the former Minister of Energy and former Minister of Interior of the Swedish government. He brings strategic knowledge of the energy sector both from the business and a state policy perspective. He was previously the Chairman of Vattenfall and a Director of Sydkraft, today he also serves as the advisor at Tergo Power AS (Norway).

CEO: Lars Guldstrand has more than 35 years of experience from leading positions and international investing in the energy, telecom and media sector. He has held executive positions in a number of private and public companies in Europe, USA, Middle East and Asia.

Managing Director: Mustaq A Patel has a background in mergers and acquisitions for clients such as Hewlett Packard, Compaq, Ford Motor Company, Hutchinson Whampoa, Rank Organization, Airbus and the Royal Bank of Scotland. Mr. Patel also worked with the government of Brunei in the recovery and restructuring of assets, as well as being active in several big energy projects in Eastern Europe.

Independent Director: Dag Andresen has a banking background with several executive positions at Nordea, and has also served as Group CFO and deputy CEO of Vattenfall and Group CFO at Vestas Wind Systems A/S.

Independent Director: Jordan Oxlay is an experienced financier with a solid background in finance and the energy sector, with a background from central banking with the Governor of the Bank of Canada. Mr. Oxlay has held executive management over a billion dollars in transactions and enterprise value, with a focus on efficient outsourcing models and smaller teams of high-quality experts.

Cindrigo

Income Statement

MSEK	2024E	2025E	2026E	2027E	2028E
Sales	37,8	115,6	196,5	280,6	368,0
Operating Costs	-5,3	-16,2	-27,5	-39,3	-51,5
EBITDA	32,5	99,4	169,0	241,3	316,5
Depreciation	-4,2	-12,7	-21,6	-30,9	-40,5
Amortisation of Goodwill	0,0	0,0	0,0	1,0	2,0
EBIT	28,3	86,7	147,4	211,5	278,0
Non-recurring Items	0,0	0,0	0,0	0,0	0,0
Associated Companies	0,0	0,0	0,0	0,0	0,0
Net Financial Items	-6,0	-5,5	-5,0	-4,5	-4,0
Pre-tax Result	**22,3**	**81,2**	**142,4**	**207,0**	**274,0**
Tax	0,0	0,0	0,0	0,0	0,0
Minority Interest	0,0	0,0	0,0	1,0	2,0
Net Result	**22,3**	**81,2**	**142,4**	**208,0**	**276,0**

Capital Expenditure

	2024E	2025E	2026E	2027E	2028E
Capital Expenditure, Absolute	4,2	12,7	21,6	30,9	40,5
As a Pct of Sales	11,0	11,0	11,0	11,0	11,0
Depreciation Multiple	1,0	1,0	1,0	1,0	1,0

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