Cindrigo Holding Ltd.
Seizing global renewable power and baseload opportunities

Andreas Eriksson | 2022-04-11 08:00

With top level experience of international business development, power company management, national energy policy and governance, the experienced Cindrigo team is building a diversified player within renewable energy and cleantech power. Based on a rollout of geothermic power plants yielding about 20 MGBP per 20MW-plant and year, Cindrigo plans a rapid international expansion while also eyeing adjacent technologies. A successful rollout, with a first plant operational by 2023 and a total of +200 MW in 2026, justifies a probability weighted fair value range of 1.20-2.90 GBP per share in our DCF-valuation approach, while a peer multiple valuation of 12x EBIT and 10x EBITDA 2024 supports a fair value of 2.20-2.40 GBP per share. A value solely based on the initial Croatian rollout, whereas in the long term, the company plans an expansion to 1000MW over the next decade, which without considering execution risks, would make Cindrigo a multi-billion GBP-company.

A renewable energy source for baseload power

As the need for reliable renewable power increases in line with the need for increased electrification to meet various climate accords, geothermal power has somewhat been forgotten compared to its sector colleagues wind and solar. With the acquisition of Energy Co-Invest Global (ECG), who owns a solid platform and a strong team within geothermal, Cindrigo looks to become a high roller within the renewable energy space with a base in geothermal power plants. Through running a very tight organization, where each project is set up in its own SPV (Special Purpose Vehicle) which will limit dilution of the Cindrigo share, the company can utilize its experience from managing projects to focus on plants where the technical competence is of importance and personnel intensity is low.

Synergies across high value subsidiaries

Through ECG, Cindrigo also retains a 48% ownership of Icelandic geothermal experts GEG Power ehf., that besides holding its own project portfolio is also an EPC-contractor that Cindrigo can utilize to construct most of their new geothermal plants, where a fair share of a geothermic project cost is EPC-related. We see a geothermal multi-plant rollout as a solid fundamental driver for revaluation. Cindrigo's first projects has 60MW capacity power plants contrcted (with potential to expand to 200 MW) in Croatia through a 90/10-partnership, with an additional two sites licensed to construct geothermic power plants with a 20 MW capacity each.

Nearby cash flow a must to unleash full potential

Our forecast is based on a rollout of geothermic plants with a total of 218 MW production, with the first one operational in 2023. For the European plants we assume an annual yield of 20 MGBP and an EBITDA of 11.25 MGBP for each 20MW. With a 90% ownership, diluted by 35% for the first Croatian projects, we expect Cindrigo to re-invest future earnings and become less dependent of an external financier, and that is when we will see the full potential of the Cindrigo business model. Based on earlier assumptions we estimate Cindrigo will reach nearly 60 MGBP in sales in 2024 and over 150 MGBP in 2025. Based on a DCF valuation approach, where the NPV of future cashflows has been probability weighted in a range of 65-85%, we see support for a fair value range of 1.20-2.90 GBP per share, while a conservative (considering expected growth) peer valuation approach on 12x EBIT and 10x EBITDA 2024 supports a fair value range between 2.23 – 2.44 GBP per share. However, we also see significant risks associated with delays and execution, as well as the importance of getting plants up and running soon to reduce the dilution of a third-party financier.

Cindrigo

Current Price, GBP	-
Shares (M)	146
Shares fully diluted (M)	171
Mkt Cap (MGBP)	-
Net Debt (MGBP)	-
EV (MGBP)	-
Market	London Main Market

MGBP	2023	2024	2025	2026
Revenue	19	58	157	207
EBITDA	13	36	92	120
EBIT	11	27	68	89
EPS Adjusted	0.06	0.14	0.35	0.46
Sales Growth, %	-	213%	170%	31%
EBITDA Margin, %	70%	61%	58%	58%
EBIT Margin, %	57%	46%	43%	43%
EV/Sales	18.9	6.1	2.2	1.7
EV/EBITDA	26.9	9.9	3.8	2.9
EV/EBIT	33.1	13.0	5.2	4.0

Source: Emergers

A brief history

Cindrigo is a renewable energy company bringing together a team that has a long track record of delivering high quality power plants and investment returns. The team is composed of well-known leaders, such as former Swedish Minister of Energy and Minister of Interior Jörgen Andersson, former CFO and deputy CEO at Vattenfall Dag Andresen, energy developer and financier Jordan Oxley, Swedish IT-entrepreneur Dan Olofsson, and former CEO of Eniro Lars Guldstrand who has over 35 years of global executive experience. With this team, Cindrigo now has a space at the top of the value chain as an IPP (Independent Power Producer).

Cindrigo management has a vision to become a solid player within renewable energy, with several projects in different niches, based on a core of geothermal plants in Europe. Other prioritized projects include power plants that deliver baseload power that also provide better carbon emissions and other renewables. This allows Cindrigo to utilize its experience from managing various projects and to focus on plants where the technical competence is of importance and personnel intensity is low.

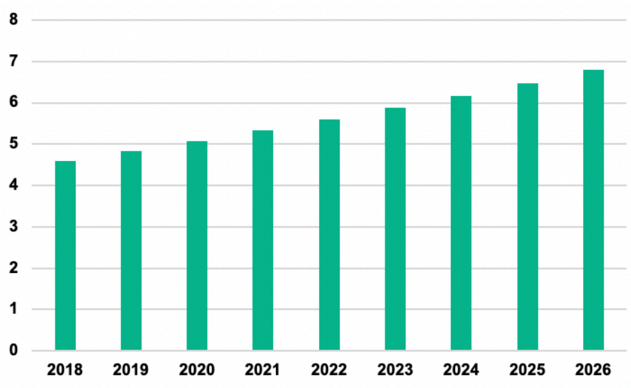
The original idea of the Cindrigo business plan was to raise a number of WtE-plants with a base in Ukraine. The discussions were advanced before being postponed due to the Russian invasion. Cindrigo makes it clear that they are not abandoning their original plan, although it is difficult to assess in this moment how and when they can proceed. The WtE business is something we believe in as it does not only provide clean baseload power, it also deals with a growing problem concerning waste management which in many countries is substandard.

A listing on the London Main Market which will make Cindrigo more accessible to external capital as they look to execute their strategy.

The geothermal power industry

With a yearly global market growth of 5%, the market for geothermal power is expected to reach a value of 6.8 billion USD by 2026. Producing energy through utilizing steam from heat reservoirs deep in the earth, geothermal is a stable and independent power source. As a clean source of baseload power, growth is driven by implementation of new and tighter regulations related to climate change. Fossil fuel power plants will be phased out, but the demand of reliable power production will increase along with further electrification driven by industrial and population growth.

Geothermal Power Market Growth 2018 – 2026 (billion USD)



Source: Allied Market Research

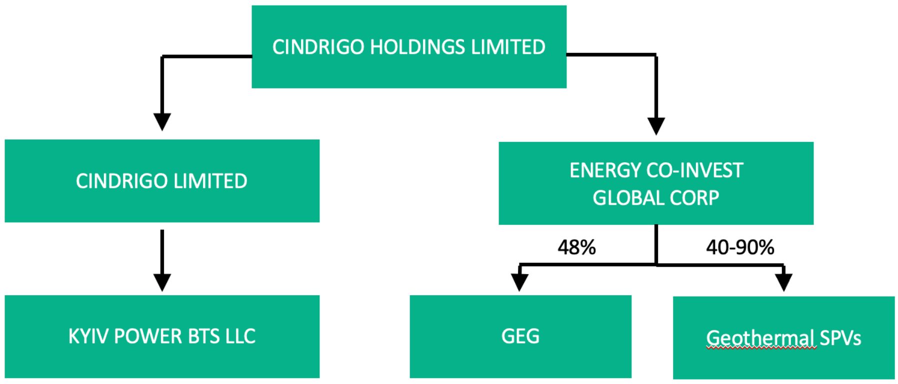
As a renewable energy source suitable for baseload, due to its reliability, there are a large number of unexploited areas suitable for geothermal power plants. The pros are many, with 100% reliability of green energy – in contrast to fluctuating solar and wind, close to zero pollution which will enable construction closer to inhabited areas and the construction costs to capacity-ratio is low. There is a large demand for green energy domestically sourced and produced, especially in EU/Central Europe. It is also classed as "Green Energy" which enables premium power prices.

Energy Co-Invest Global Corp (ECG)

Cindrigo recently acquired 100% ownership of the Canadian holding company Energy Co-invest Global Corp (ECG). ECG has a portfolio of clean baseload energy project plans and is the largest shareholder of Icelandic EPC-contractor and geothermal developer GEG Power, with a 48% stake. The total cost of the acquisition was 1,620,000 GBP, where 120 000 GBP was paid in cash, and the remainder was paid in 1,200,000 Cindrigo shares at 1,25 GBP/share.

Since development of the Kyiv project has been postponed due to obvious reasons, Cindrigo is looking to utilize ECG's and GEG's established presence in jurisdictions where they have the contracting rights to explore and construct geothermal plants, as well as potential WtE-projects as that ambition remains.

Cindrigo Company Structure



Source: Emergers,

The number of outstanding shares today are 146 million, but there are another 25 million shares outstading through loan notes and warrants, which if converted would inject another 1 MGBP to the Cindrigo organization.

GEG POWER (GEG)

ECG holds a 48% stake in the Icelandic geothermal power company GEG and is thereby the largest shareholder. The company has a strong network and base in Iceland and been an active developer in the geothermal sector building 15 plants, which represented more than 2% of the global market. In 2021 GEG initiated three projects:

IPP-project in Chile
A geothermal project with a high-quality joint venture partner, Transmark Renewables. The project received a 7.5 MGBP grant from a German state fund to reduce startup costs.

IPP-project in Kenya
The project is based in an area with high heat resource (+200C) where a plant with a capacity of up to 40MW will be constructed. GEG looks to acquire an 85% ownership. This project has received a grant of 750,000 USD and a power purchase agreement is anticipated with the Kenyan government.

O&M-project in Kenya.
GEG has a service contract yielding 2 MUSD with the Kenyan state electricity company KenGen, for parts and maintenance of their geothermal plants.

Rollout plan

Cindrigo looks to build a number of geothermal plants through the many project rights owned by ECG and through utilizing their 48% stake in GEG for construction of the majority of them.

Rollout plan Croatia

		2023	2024	2025	2026
Installed MW		10	50	150	200
Plants á	20 MW	1	2.5	7.5	10
Totalt NPV		105	263	789	1052
Cindrigo %		60%	65%	70%	80%
Cindrigo share		63.1	171.0	552.4	841.8

Source: Emergers

The initial focus will be on three sites in Croatia, where each site has license to construct a geothermal plant with a capacity of 20MW. Their geothermal resource has been investigated by the Croatian Hydrocarbon Agency and the company has been granted an exploration license. There is a likely potential to expanding and adding additional license blocks in Croatia and neighboring markets. Cindrigo estimates a construction period of 12 – 24 months per plant, but also assumes at least 10MW should be operational by early 2023. An estimated project cost of 70 MGBP per 20MW, where we expect a yield of 20 MGBP and an EBITDA of 11.25 MGBP annually, a more conservative estimation compared to the companies own communication of an EBITDA of 12 MGBP.

Further rollout and possibilities

Besides the geothermal projects in Croatia, Chile and Kenya, Cindrigo has, through its acquisition of ECG and thereby GEG, a large portfolio of potential projects in various ready stages. This includes other geothermal projects in Pannonian basin the very favorable area for geothermal continuing in Croatia as well as Hungary, Romania and Slovakia, and also countries like Germany, USA, Other industries that have been identified as suitable as possible add-ons to the geothermal plants are solar power and hydrogen gas, where Cindrigo seek projects that are operational, or close to operational. These industries are suitable because the land and infrastructure can be leveraged as well as low personnel density. Another aspect of establishing the company as a grand player within renewables is the possibility to issue green bonds, and thereby more easily accessible 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.

Prognosis

As the company's main focus in the short term will primarily be in Croatia, with the three blocks with an initial capacity of 20MW each, with potential for expansion to 200MW. Development for the first 20MW is expected to take 12-24 months, but according to company plans at least 10MW should be up and running by 2023.

While the power prices in Europe can be sold at a premium, that is not the case in countries like Chile and Kenya, but the margins of Cindrigos business model are still high enough to make it profitable. Although, margins will be higher in Europe (and possibly the US) and that is why we expect Cindrigo to put most of their focus there, even in the longer term.

Cindrigo's further rollout and the goal to achieve 1000MW worth of plants in a ten-year period of time is highly dependent on the success of the initial plans. There is a shareholder value even in the shorter term with the initial projects in Croatia, but the true potential of Cindrigo lies in beyond that. We are optimistic, especially considering the management team and their connections, that Cindrigo will succeed on this larger scale.

Valuation

Our valuation is solely based on the initial projects in Croatia reaching an operating capacity of 200MW in 2026, and does not reflect any future value of a further rollout, which we are optimistic towards, but we want to see a successful initial rollout due to the lack of proven track record.

For the Croatia projects Cindrigo has a 90% ownership in the companies which owns the site and drilling rights. We estimate project costs to 70 MGBP per 20MW, that will be financed through a debt/equity-structure of 80/20, where Cindrigo will use a third-party financier of 35%, leaving Cindrigo in a 60% ownership in total. The dilution of the financing partner will reduce for each new plant, as cash flows are re-invested. We assess that Cindrigo's 60% stake in the first Croatia project to have a NPV of 105 MGBP with a WACC of 7%, justified that PPAs are written over a minimum of ten years and cash flows should thereby be of lower risk.

DCF indicates fair value range between 1.20-2.90 GBP per share

With 10MW operational in Croatia and some cash flow from the GEG-project in Chile by 2024, we assume Cindrigo will reach a total of 218MW worth of capacity by 2026. For each year, we discount the NPV with a probability weight with a range from 65-85% likelihood, leaving us with a fair value range of 1.20 GBP per share at 65% likelihood and 2.90 GBP per share at 85% likelihood. Based on that Cindrigo successively increase their self-financing-ratio.

Comparable Listed Peers

	Market Cap	EV	Revenue (M)	EBITDA (M)	CAGR 1y	EBITDA% Avg. 1y	EV/S	EV/ EBITDA	Stock dev. 1y
Augean	389	386	88	27	-14.8%	2.3%	4.4	14.1	95.3%
Biffa	1 007	1 567	1 231	103	17.1%	11.4%	1.3	15.2	23.2%
EDP Renovaveis	22 131	24 981	1 580	1 775	03.4%	88.6%	15.8	14.1	32.4%
Ormat Tech	4 466	5 740	663	352	-6.0%	51.6%	8.7	16.3	06.1%
Polaris Infrastructure	334	432	75	53	-20.9%	96.2%	5.7	8.1	-16.3%
Renewi	546	975	1 537	179	00.8%	11.6%	0.6	5.4	39.9%
Average							6.1	12.2	
Median							5.1	14.1	

Source: Emergers

Peer/multiple indicates fair value range between 2.23-2.44 GBP per share
There are several comparable listed companies who operates in the green power supplying area. Notable, 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 8.1 – 16.3 with an average of 12.2x EBITDA.

Cindrigo differs from these peers in the sense that they are more of a project-based company, owning project rights in areas where geothermal needs are high, and a large number of wells are drilled already, reducing the risk. Running a very slim and cost-efficient type of business, margins are estimated at higher levels than industry peers, as can be seen also by the only geothermal company in the peer list. Despite the high projected growth Cindrigo will operate their geothermic plants mainly in EU or select non-EU jurisdictions with strong energy sectors and suitable for project finance, but are still associated with some uncertainty. Because of Cindrigo's initial smaller size, we believe a discounted multiple is justified until the company has a more proven track record. A goal multiple of 10x EBITDA 2024 indicates a fair value of 2.44 GBP per share, whereas 12x EBIT 2024 indicates 2.23 GBP.

Peer multiple valuation

		2024e 50MW	2025e 150MW	1000MW*
EBITDA (pot. Value)	10	356	919	5627
EBIT (pot. Value)	12	325	818	4928
No. of Shares		146	146	146
Fair value EBITDA GBP/share		2.4	6.3	38.5
Fair value EBIT GBP/share		2.2	5.6	33.8

*Not considering execution risk or dilution. Source: Emergers

To reach the 1000MW we believe that external financing is required, diluting the Cindrigo shareholders further. The dilution is dependent on how successful the initial rollout is, and how much can be re-invested into new plants.

Risks

Financing risk: All the initial projects are dependent on an external financier, and the anticipated success is based on finding these partners as well as they are fulfilling their commitments. We judge that the risk is mitigated by the vast experience, the network of the Cindrigo management team and that it is a sector with appreciated good returns.

Construction risk: As well as with the financing, the construction phase is as crucial to the success and the partners in this area will be of most importance.

Since Cindrigo can utilize the expertise of GEG for many of the projects, we assess this risk as medium-low.

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.

Sensitivity of 1 year delay

Weight	Prob. weighted NPV	No. of shares	GBP per share
65%	144	146	0.98
85%	363	146	2.48

Source: Emergers

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, and today he also serves as the advisor at Tergo Power AS (Norway).

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

CFO & Director: Simon Fawcett has a long history within finance as an accountant at KPMG where he received his qualification as a Qualified Chartered Accountant. Mr Fawcett has held positions as Financial Director, Chief Investment Officer and Chief Executive at a range of entrepreneurial companies.

Chief Commercial Officer & Managing Director UK: 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 large energy projects in Eastern Europe.

Independent Director: Dag Andresen has an extensive banking background and industry experience. Previously Group CFO & Deputy CEO of Vattenfall (Sweden), one of the largest European power companies, Group CFO at Vestas Wind Systems (Denmark), a leading manufacturer of wind turbines, and banking background with several executive positions at Nordea, e.g. head of Internal Audit and Business Area Transaction and Finance Banking.

Independent Director: Jordan Oxley is an experienced executive with a solid background in finance and the energy sector Currently MD of Energy Co-Invest, senior experience in financial, fintech, mining and energy companies including executive management over a billion dollars in transaction and enterprise value and board appointments and work in central banking with the Governor of the Bank of Canada.

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