Dlaboratory Sweden AB

Spark of newfound momentum as restrictions eases

Johan Widmark & Magnus Brolin | 2022-06-23 08:00

So far in 2022, there has been some encouraging news flow both from Dlaboratory and the sector as a whole. Increased contact with new and existing customers after covid restrictions has been lifted, has yielded results, with market approval in Jakarta, a first order in Dubai and several domestic orders. This also rhymes well with the steep increase in investments among Swedish power utilities at ~15% last year. At the same time, the contraction in risk appetite continues to affect all growth stocks with earnings far ahead into the future. As a consequence, we now see support for a fair value of SEK 7-9 (9-12) per share on a 12-24 month horizon, but also note that a breakthrough in the international roll-out holds potential for business in the hundreds of millions, which can change the valuation significantly.

Strong underlying trend to invest in grid stability

Now most of Dlaboratory's customer has reported numbers for investments in 2021. Based on six of the largest customers, weighted increase in CAPEX amounted to 14,7% last year. While a significant part of those investments has been toward environmentally friendly types of energy, which have a different physiological structure than conventional energy types, and Dlab's service relates to OPEX rather than CAPEX, the number is still a clear indication of the willingness among customers to invest in improved stability of delivery to end customers. Also, Dlaboratory's service can play a role in solving the capacity shortage and power quality caused by the surge in solar power fed into the electricity grid, making it even more interesting to grid operators.

Granted market approval in Indonesia

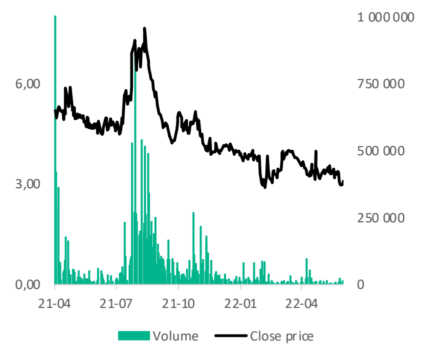
For its international expansion, Dlaboratory has chosen to work with local partners, such as in Jakarta, where the pilot project has been completed and received market approval for the Indonesian electricity market. We now await news on the pace and scale of the future roll-out. Dlaboratory has also received an order from Dubai Electricity and Water Authority (DEWA), which supports our expectation of a larger international roll-out down the road, although the order value is not quantified and does not affect our forecast at this point. The order is a part of a larger restructuring project to upgrade and expand the electricity network in Dubai to meet the environmental goals for 2050. This strengthens our view that Dlaboratory's service has a role in the transition towards a greener future.

High long-term potential

In September 2022, Erik Severin will step down as CEO to be replaced by Richard Jacobson, coming from the role as CEO of Comsys. We continue to see the potential for 600 units connected in the domestic markets and 800 units connected outside the domestic markets by the end of 2025, which translates into recurring revenues of SEK 80 million per year. While the acquisition of SLB will continue to provide an artificial boost to reported numbers over the coming two quarters, Dlaboratory is not unaffected by the continued contraction in risk appetite that is currently affecting all tech development companies with earnings far into the future. As a consequence, we now find support for a fair value of 7-9 (9-12) SEK on a 12–24-month horizon. We continue to see a medium to high risk in dLab, where the most significant risks consist of long lead times and high thresholds for adaptation.

Dlaboratory AB

Fair Value, SEK (18-24 m)	**7 - 9**
Current Price, SEK	2,87
Number of Shares (Millions)	16,9
Market Capitalisation (MSEK)	49
Net Debt (MSEK)	-25
Enterprise Value (MSEK)	24
Market	First North



MSEK	2020	2021	2022E	2023E	2024E
Revenue	5	18	69	110	152
EBITDA	-13	-14	-12	-4	10
EBIT	-13	-16	-14	-6	8
EPS Adjusted	-1,25	-0,96	-0,82	-0,38	0,47
Sales Growth, %	-17%	280%	284%	59%	38%
EBITDA Margin, %	-268%	-79%	-17%	-4%	7%
EBIT Margin, %	-283%	-90%	-20%	-6%	5%
EV/Sales	n.a.	1,22	0,34	0,22	0,16
EV/EBITDA	-	-1,5	-2,0	-5,3	2,4
EV/EBIT	-	-1,4	-1,7	-3,7	3,0
P/E	-	-3,0	-3,5	-7,5	6,1

Source: Emergers

About Dlaboratory

Dlaboratory Sweden AB (publ) offers real-time monitoring and optimization of electricity networks to operators and owners. Through the acquisition of Svensk Linjebesiktning (SLB), they also offer inspection and control of networks. With installations at more than 24 customers in Sweden, and at reputable electricity network companies such as E.ON, Ellevio and Kraftringen, the company has a strong platform for international expansion with pilot projects in Finland and Indonesia, as well as initial discussions in a number of additional countries.

Dlaboratory offers a platform for collecting, analyzing and presenting permit information to operate and develop the electricity grid of the future that does proactive maintenance work, improves capacity utilization and increased delivery security with fewer interruptions. The service is based on a patented algorithm that makes electricity network data useful for both operational and strategic operations. The company has sprung from research at the technical department at Lund University, was incorporated in 2010 and has conducted commercial activities since 2015.

Forecast

Targets for 2025 translate to 1400 installations in our forecast

DLaboratory has communicated several targets by 2025, formulated in terms of market penetration. These are
- 20% market share in Sweden
- 10% market share in the domestic markets outside Sweden, which are Norway, Finland and Denmark.
- Entry into 10 countries globally

This should be done with an annual churn of less than 3%.

With the support of the established base of customers and pilot installations in Sweden, the company's strong financial muscles and partner-driven expansion strategy, we expect the company to reach 600 installations in Sweden and 800 abroad by the end of 2025.

Revenue and costs

In addition to service revenue from SLB, Dlaboratory's revenue consists of two main revenue streams, a start-up revenue in the form of the hardware installed in the distribution network distribution stations, and recurring license revenue for subscriptions to Dlaboratory's platform, which makes the business very scalable.

Although the exact cost of the hardware varies, in our model we have assumed an average income of SEK 165,000 per distribution station in hardware where we have assumed a lower margin of 10%.

For license revenues, we expect annual recurring revenue of SEK 75,000 per installation. After some minor start-up costs, the company guides the license revenue to provide a gross margin contribution of over 85%. We estimate that this figure may be even higher as Dlaboratory comes up in scale on the deals.

In addition, we expect that the international expansion will largely be driven by partners, where we expect that dLab will have to give up at least 15% of the stores' gross revenue. All in all, this means that

a) that the company's gross margin will be squeezed by low-margin revenues as long as the company grows with new installations.

b) the domestic market processed by the company will directly provide a higher contribution per installation is the international activity that will be charged by the partners' compensation. In total, we expect just over 45–50% gross margin for the Swedish businesses 2021-2025E, and about 26-39% gross margin for the international installations 2021-2025E after the partners' compensation.

c) The potential for an increasing share of fully digital on-boarding, without hardware sales, may significantly increase the gross margin in the business, but it will depend on which markets the company enters and what the technical maturity looks like for each individual customer.

Regarding operating costs, the outlook is difficult to estimate, but as the company has strengthened its cash significantly precisely to finance international expansion, we expect protracted investments in rollout in the coming year and that the company will clearly show black figures at operating level only in 2024E.

Valuation

The extended profile of the company's subscription revenues means that a DCF valuation is particularly suitable for assessing the justified value of dLab's share. As described earlier, all profits are expected to be reinvested in expansion, which is why the company's profits are far in the future, largely beyond our forecast horizon. With a stable high EBITDA margin beyond 2025, low investment needs and a discount rate of 25%, we see a total DCF value of SEK 9 per share.

As part of the recent unit issue, warrants of series TO1 were included. These have a subscription period of 1–30 September 2022, where two options give the right to subscribe for a new share at a subscription price of SEK 11.10 per share, which can bring in SEK 36.4 million before costs.

As the company lacks relevant peers in Sweden, it is forced to go broader to make a relative valuation. The highly defensive nature of the business and the conditions for very long customer relationships provide support for high valuation multiples. At the same time, the company is expected to continue to show losses in the next few years, during the early expansion phase. A not very aggressive multiple of 1.5x next year's sales and 9x EBITDA in 12-24 months provides support for a justified value corresponding to SEK 7 per share on that horizon. With the support of a DCF and multiple valuations, we, therefore, see support for a fair value for the share of SEK 7-9 (9–12) on a 12-24 months horizon.

When calculating the long-term revenue potential for Dlaboratory, it is difficult to arrive at anything other than that the deal has a high revenue potential and thus potential value. Despite the stability in revenues and the good reception from customers, there are risks and uncertainties associated with the pace of rollout and the company's conditions to scale up, both at the partner level and in terms of inertia in decision paths etc. among the company's customers. However, we see good conditions for the company to succeed in overcoming these uncertainties and question marks in the coming years, and to continue to make progress towards realizing its long-term potential. Overall, we therefore see a medium risk.

Dlaboratory Sweden AB

Income Statement

MSEK	2019	2020	2021	2022E	2023E	2024E	2025E
Sales	5,8	4,8	18,1	69,4	110,0	152,3	263,3
Operating Costs	-13,3	-17,5	-32,4	-81,4	-114,5	-142,3	-221,4
EBITDA	-7,5	-12,7	-14,4	-11,9	-4,5	10,0	41,9
Depreciation	-0,5	-0,7	-1,8	-2,0	-2,0	-2,0	-2,0
Amortisation of Goodwill	0,0	0,0	0,0	0,0	0,0	0,0	0,0
EBIT	-8,1	-13,5	-16,2	-13,9	-6,5	8,0	39,9
Non-recurring Items	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Associated Companies	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net Financial Items	-0,1	0,0	0,0	0,0	0,0	0,0	0,0
Pre-tax Result	**-8,2**	**-13,5**	**-16,2**	**-14,0**	**-6,5**	**8,0**	**39,9**
Tax	0,0	0,0	0,0	0,0	0,0	0,0	-4,8
Minority Interest	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net Result	**-8,2**	**-13,5**	**-16,2**	**-14,0**	**-6,5**	**8,0**	**35,1**

Capital Expenditure

	2019	2020	2021	2022E	2023E	2024E	2025E
Capital Expenditure, Absolute	0,0	0,0	14,0	2,0	2,0	2,0	2,0
As a Pct of Sales	0,0	0,0	77,7	2,9	1,8	1,3	0,8
Depreciation Multiple	0,0	0,0	7,7	1,0	1,0	1,0	1,0

Key Ratios

Share Price: SEK 2,87

	2019	2020	2021	2022E	2023E	2024E	2025E
Share Price at 31 Dec	n.a.	n.a.	2,87	2,87	2,87	2,87	2,87
Number of Shares (Millions)	10,75	10,75	16,94	16,94	16,94	16,94	29,44
Market Cap	n.a.	n.a.	48,6	48,6	48,6	48,6	84,5
Enterprise Value	n.a.	n.a.	22,0	23,7	30,8	23,0	26,7
EPS (Reported)	-0,76	-1,25	-0,96	-0,82	-0,38	0,47	1,19
EPS (Adjusted)	-0,76	-1,25	-0,96	-0,82	-0,38	0,47	1,19
CEPS	-0,76	-1,25	-0,96	-0,82	-0,38	0,47	1,19
P/CEPS	n.a.	n.a.	n.a.	n.a.	n.a.	6,1	2,4
Book Value/Share	0,5	0,6	2,2	1,3	1,0	1,4	2,0
P/BV	n.a.	n.a.	1,3	2,1	3,0	2,0	1,4
Dividend	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Dividend Yield (%)	n.a.	n.a.	0,0	0,0	0,0	0,0	0,0
Dividend Payout Ratio (%)	0,0	0,0	0,0	0,0	0,0	0,0	0,0
EV/Sales	n.a.	n.a.	1,2	0,3	0,3	0,2	0,1
EV/EBITDA	n.a.	n.a.	-1,5	-2,0	-6,9	2,3	0,6
EV/EBIT	n.a.	n.a.	-1,4	-1,7	-4,7	2,9	0,7
P/E (Adjusted)	n.a.	n.a.	-3,0	-3,5	-7,5	6,1	2,4
Sales Growth, Y/Y (%)	n.a.	-17,5	279,9	284,4	58,5	38,4	72,9
EBIT Growth, Y/Y (%)	n.a.	67,0	20,1	-13,8	-53,5	-223,3	398,5
EPS Growth (Adjusted), Y/Y (%)	n.a.	65,1	-23,7	-13,8	-53,4	-222,7	152,9
EBITDA Margin (%)	-131,0	-267,9	-79,5	-17,2	-4,1	6,6	15,9
EBIT Margin (%)	-140,0	-283,2	-89,6	-20,1	-5,9	5,3	15,1
Return on Equity (%)	0,0	-223,2	-75,2	-46,8	-33,2	39,2	83,7
Tax Rate (%)	0,0	0,0	0,0	0,0	0,0	12,0	20,6

Financial Position

	2019	2020	2021	2022E	2023E	2024E	2025E
Interest-Bearing Net Debt	0	-5	-27	-25	-18	-26	-58
Net Debt/Equity	-0,1	-0,7	-0,7	-1,1	-1,1	-1,1	-1,0
Equity Ratio	0,5	0,6	0,8	0,4	0,3	0,4	0,6
Net Debt/EBITDA	0,0	0,1	0,1	0,1	0,2	-0,1	0,0

Source: Emergers, Company reports

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Johan Widmark | Tel: +46739196641 | Mail: johan@emergers.se
Magnus Brolin | Tel: +46739804038 | Mail: magnus@emergers.se