Swedish Stirling AB
Strengthens finances with unique climate compensation-linked instrument

Andreas Eriksson | 2022-09-14 08:00

In addition to an annual yield in of 7.25%, Swedish Stirling's imminent preference rights issue also retain emission rights equal to an annual CO_2-reduction of 100 kg per share, making it a both innovative and lucrative opportunity for investors to compensate for their CO_2-emissions, not seen before. With the financing of the first pivotal project now on track to be secured we continue to see a fair value of SEK 15-22 per share in 18-24 months, with several triggers likely to drive a revaluation of the share.

Green preference share issue underway

With the ongoing 10MW rollout of PWR BLOKs to Glencore Merafe's Lion Smelter in South Africa, where Swedish Stirling has signed an energy conversion agreement to produce electricity from the ferrochrome smelters residual gasses, the financing is now on track to crystalize after the preference rights issue. The previously secured debt financing from South African bank IDC of SEK 96m will now be complemented by a green preference share issue of SEK 100m, with rights reserved to increase the offering by up to SEK 50m if oversubscribed. The subscription price of SEK 276 per preference share will annually yield SEK 20 paid quarterly with SEK 5 per quarter and share, corresponding to an annual yield of 7,25%. We see a good chance for Stirling to fill the issue as renowned names such as Glencore, Merafe and the af Jochnick family have taken the lead as anchor investors. Now also chairman and majority shareholder Sven Sahle made an application to acquire preference shares of a total of SEK 18,6m, financed by selling a block of his common shares to institutional investors. So far, we've seen a neutral market reaction to the news.

Value could exceed the offering

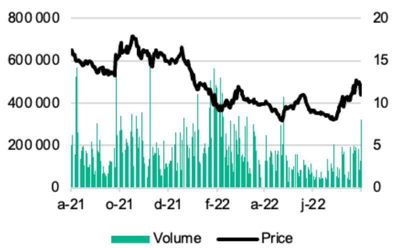
Since Swedish Stirling will be the owner of the technology at Lion Smelter they will also be the recipient of all the emission rights generated from the CO_2 reduction the technology brings. Once the 10MW plant is fully operational, it will offset CO_2-emissions by approximately 80,000 tonnes per year, generating 80,000 South African emission rights. The company's plan is to retain emission rights equal to 100 kg per preference share which implies that an investment of SEK 24,840 (90 preference shares) equals 9 emission rights, and will fully compensate the carbon footprint of an average Swede. The South African market for emission rights is not regulated compared to its European equivalent, but there are signs that it could be in a not too distant future. A readacross from the EU trading scheme suggests that an investment of SEK 24,840 with the attached 9 emission rights, corresponds to approximately SEK 8,000, based on an average price of EUR 90 per emission right. Or in a wider scope, all the 80,000 emission rights generated annually equals an implied value of SEK 72m.

Focus on Lion Smelter, but not exclusively

Seeing Glencore, one of the largest mining companies in the world, as a lead investor in the preference rights issue, we believe underscore their confidence in the technology. While focus now will turn to delivering the 10MW to Lion Smelter, there are other potential triggers lurking about, with the recent comeback of Richard Bay Alloys, whom Swedish Stirling signed an LOI of USD 18m back in 2020, being one, partly offsetting the adverse development with the for now stalled negociations with Samancor. For now, our combined DCF and multiple approach continue to support a fair value of SEK 15-22 per share in 18-24 months.

Swedish Stirling

Fair Value, SEK (18-24 m)	15 - 22
Current Price, SEK	10,37
Number of Shares (Millions)	128,4
Market Capitalisation (MSEK)	1 332
Net Debt (MSEK)	-64
Enterprise Value (MSEK)	1 268
Market	First North



Financial Summary

MSEK	2019	2020	2021	2022	2023	2024
Sales	0	0	0	3	22	60
Income	45	53	67	43	47	60
EBITDA	-99	-20	-25	-44	-56	-69
EBIT	-101	-24	-38	-59	-71	-84
EPS Adjusted	-1,49	-0,50	-0,54	-0,50	-0,69	-0,97
Sales Growth, %	n.m.	n.m.	n.m.	n.m.	781%	168%
EBITDA Margin, %	n.a.	n.a.	n.a.	-17,3	-2,5	-1,1
EBIT Margin, %	n.a.	n.a.	n.a.	-23,2	-3,2	-1,4
EV/Sales	n.a.	n.a.	n.a.	434,01	49,28	18,36
EV/EBITDA	-8,9	-56,4	-69,2	-25,0	-19,6	-16,1
EV/EBIT	-8,7	-48,1	-45,3	-18,7	-15,5	-13,2
P/E	-7,2	-26,4	-28,1	-18,2	-13,3	-9,4

Source: Emergers

Disclaimer

General disclaimer and copyright
This material is not intended to be financial advice. This material has been commissioned by the Company in question and prepared and issued by Emergers, in consideration of a fee payable by the Company. Emergers standard fees are SEK 240 000 pa for the production and broad dissemination of a detailed note following by regular update notes. Fees are paid upfront in cash without recourse. Emergers may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: 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 herein represent those of the research analyst at Emergers at the time of publication. The company has been given the opportunity to influence factual statements before publication, but forecasts, conclusions and valuation reasoning are Emergers’ own. Forward-looking information or statements 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.

Exclusion of Liability: To the fullest extent allowed by law, Emergers 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 in this material.

No personalised 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 Emergers’s solicitation to effect, or attempt to effect, any transaction in a security. The securities described in this material may not be eligible for sale in all jurisdictions or to certain categories of investors. Investors are encouraged to seek additional information as well as consult a financial advisor prior to any investment decision.

Investment in securities mentioned: Emergers has a restrictive policy relating to personal dealing and conflicts of interest. Emergers does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Emergers may have a position in any or related securities mentioned in this report, subject to Emergers' policies on personal dealing and conflicts of interest.

United Kingdom
This document is prepared and provided by Emergers for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

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.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States
Emergers relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Emergers does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Johan Widmark | Tel: +46739196641 | Mail: johan@emergers.se
Andreas Eriksson | Tel: +46737307335 | Mail: andreas@emergers.se

Emergers
Incirrata AB
Enbacken 16
187 44 Täby
Sweden

Phone: 0739 – 19 66 41
Email: johan@emergers.se
Corp reg no: 556815-7837