Dlaboratory Sweden AB

Strong growth and positive EBITDA a welcome shift in pace

Johan Widmark | 2022-11-04 08:00

With a steep increase in revenue, 35% recurring revenue growth, turn to positive EBITDA of SEK 2.2m and a forward-leaning statement from the new CEO, the Q3 report sends a strong signal that a new era for Dlaboratory is underway. The report is new CEO Rickard Jacobson's first and with the share price near all-time low before the 43% rally on the report, the start of Q4 has provided both a good entry point for Jacobson (who acquired 425 000 warrants in October) as well as for shareholders looking for a reversal of the downwards trend. With a snowballing interest in network stability and electricity security, we find continued support for a fair value of SEK 5-7 per share in 12-24 m, but note that a breakthrough in the international roll-out holds potential for a substantial upwards revision.

Q3 revenue beat our expectations

The positive momentum noticed in H1'22 carried on into Q3. Revenue increased to SEK 14,0m although the revenue in Q3'21 of SEK 8,9m only includes the acquisition of SLB from August 1st. This also compares with our forecast of SEK 11m for Q3. Recurring revenue growth was 35%, which was a slight deceleration from 45% in Q2'22. Looking at the business, Dlaboratory received a large order from Vattenfall for advanced condition checks of 500 network stations using a combination of Dlaboratory's service and SLB's corona inspection. Dlaboratory also received several orders for increased grid surveillance.

Costs developed as expected in the quarter which along with repayment of pension provisions, resulted in a positive EBITDA of SEK 2.2m in Q2. With an increase in working capital of SEK 6m, cash flow was SEK -3.3m in the quarter. As a result we have raised our revenue forecast for FY 2022 to SEK 43m (40) and now expect an EBITDA for 2022 of SEK -10m (-17).

Hope for increased focus on international expansion in 2023

Going forward, we now hope to see an increased news flow about Dlaboratory's international roll-out, primarily progress in Jakarta, further penetration in Dubai/Middle East and an entry into the US. Along with a ramp-up of recurring surveillance deals, we see these as the main potential triggers for the share. However, we also note that an international roll-out is slow to scale. Cash amounted to SEK 16 at the end of Q3'22, and while we expect a lower activity in SLB during the winter months, we estimate that this covers runway through 2023.

With the new CEO Rickard Jacobson now injecting his experience from international sales, expansion and business development into Dlaboratory, we continue to look favorably on the target of 600 units connected in the domestic markets and 800 units connected outside the domestic markets by the end of 2025, which would translate into recurring revenues of SEK 80 million per year. All in all, we continue to find support for a fair value of SEK 5-7 SEK on a 12–24-month horizon, at a medium to high risk in Dlab, where the most significant risks consist of long lead times and high thresholds for adaptation.

35%

growth in recurring revenues in Q3'22

1400

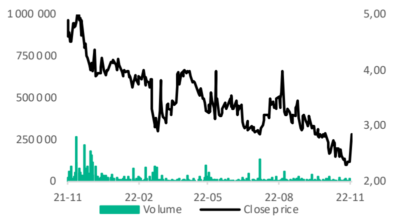
Units connected by 2025

43

MSEK revenue forecast in 2022

Dlaboratory AB

Fair Value, SEK (12-24 m)	**5 - 7**
Current Price, SEK	3,43
Number of Shares (Millions)	16,9
Market Capitalisation (MSEK)	58
Net Debt (MSEK)	-16
Enterprise Value (MSEK)	42
Market	First North



MSEK	2020	2021	2022E	2023E	2024E
Revenue	5	18	43	67	85
EBITDA	-13	-14	-10	2	11
EBIT	-13	-16	-13	-1	9
EPS Adjusted	-1,25	-0,96	-0,77	-0,07	0,53
Sales Growth, %	-17%	280%	140%	55%	26%
EBITDA Margin, %	-268%	-80%	-23%	3%	13%
EBIT Margin, %	-283%	-90%	-30%	-2%	11%
EV/Sales	n.a.	2,46	0,97	0,63	0,50
EV/EBITDA	-	-3,1	-4,2	23,5	3,8
EV/EBIT	-	-2,7	-3,2	-35,0	4,7
P/E	-	-4,4	-4,4	-47,4	6,5

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 6 per share.

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 5-7 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 to high risk.

Dlaboratory Sweden AB

Income Statement

MSEK	2019	2020	2021	2022E	2023E	2024E	2025E
Sales	5,8	4,8	18,1	43,3	67,2	84,9	115,4
Operating Costs	-13,3	-17,5	-32,4	-53,4	-65,4	-73,9	-92,7
EBITDA	-7,5	-12,7	-14,4	-10,1	1,8	11,0	22,7
Depreciation	-0,5	-0,7	-1,8	-3,0	-3,0	-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	-13,1	-1,2	9,0	20,7
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**	**-13,1**	**-1,2**	**9,0**	**20,7**
Tax	0,0	0,0	0,0	0,0	0,0	0,0	-2,5
Minority Interest	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net Result	**-8,2**	**-13,5**	**-16,2**	**-13,1**	**-1,2**	**9,0**	**18,2**

Capital Expenditure

	2019	2020	2021	2022E	2023E	2024E	2025E
Capital Expenditure, Absolute	0,0	0,0	14,0	3,0	3,0	2,0	2,0
As a Pct of Sales	0,0	0,0	77,7	6,9	4,5	2,4	1,7
Depreciation Multiple	0,0	0,0	7,7	1,0	1,0	1,0	1,0

Key Ratios

Share Price: SEK 3,43

	2019	2020	2021	2022E	2023E	2024E	2025E
Share Price at 31 Dec	n.a.	n.a.	4,19	3,43	3,43	3,43	3,43
Number of Shares (Millions)	10,75	10,75	16,94	16,94	16,94	16,94	29,44
Market Cap	n.a.	n.a.	70,9	58,0	58,0	58,0	100,8
Enterprise Value	n.a.	n.a.	44,3	61,8	61,8	51,8	76,1
EPS (Reported)	-0,76	-1,25	-0,96	-0,77	-0,07	0,53	0,62
EPS (Adjusted)	-0,76	-1,25	-0,96	-0,77	-0,07	0,53	0,62
CEPS	-0,76	-1,25	-0,96	-0,77	-0,07	0,53	0,62
P/CEPS	n.a.	n.a.	n.a.	n.a.	n.a.	6,5	5,5
Book Value/Share	0,5	0,6	2,2	1,4	1,3	1,9	1,7
P/BV	n.a.	n.a.	1,9	2,4	2,6	1,8	2,0
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.	2,5	1,4	0,9	0,6	0,7
EV/EBITDA	n.a.	n.a.	-3,1	-6,1	34,4	4,7	3,4
EV/EBIT	n.a.	n.a.	-2,7	-4,7	-51,2	5,8	3,7
P/E (Adjusted)	n.a.	n.a.	-4,4	-4,4	-47,4	6,5	5,5
Sales Growth, Y/Y (%)	n.a.	-17,5	279,7	140,1	55,1	26,3	35,9
EBIT Growth, Y/Y (%)	n.a.	67,0	20,2	-19,1	-90,8	-844,5	130,4
EPS Growth (Adjusted), Y/Y (%)	n.a.	65,1	-23,6	-19,0	-90,7	-832,2	16,8
EBITDA Margin (%)	-131,0	-267,9	-79,6	-23,3	2,7	12,9	19,7
EBIT Margin (%)	-140,0	-283,2	-89,7	-30,2	-1,8	10,6	17,9
Return on Equity (%)	0,0	-223,2	-75,2	-43,4	-5,3	33,2	44,9
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	4	4	-6	-25
Net Debt/Equity	-0,1	-0,7	-0,7	0,2	0,2	-0,2	-0,5
Equity Ratio	0,5	0,6	0,8	1,1	1,0	0,9	0,9
Net Debt/EBITDA	0,0	0,1	0,1	0,0	0,1	0,0	0,0

Source: Emergers, Company reports

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