Swedish Stirling AB
Bulking up to relaunch selling hardware

Andreas Eriksson | 2022-12-07 08:00

After the canceled preference rights issue in Q3, Swedish Stirling has now scrapped the plan to offer PWR BLOK as a service in favor of re-negotiating a purchase agreement for the same capacity with Glencore instead. Should the SEK 200m rights issue be fully subscribed at SEK 1.13 per share which is likely considering that 80% is guaranteed, this will, along with the conversion of KV4 of SEK 50m, increase share count by 2.7x to 350m shares. As we maintain our forecast of 2 MW worth of PWR BLOKs sold in 2023 with a ramp up to 22 MW sold by 2025, this translates to a new fair value of SEK 3.2 – 4.3 per share (SEK 9 – 12) in 12-24 months.

Bringing Glencore back to the table

As a consequence of the canceled preference rights issue earlier in Q3, Swedish Stirling was more or less forced into finding a new, less capital intense strategy to shorten the way to positive cash flow. Now Swedish Stirling intends to sell the 10 MW worth of PWR BLOKs to Glencore, instead of its previous offering of an energy conversion service. To finance this, the company has announced a rights issue of SEK 200m of which SEK 160m is already guaranteed. The company has also obtained conversion undertakings of SEK 50m from KV4 convertible bond holders. Landing a first firm deal is now of highest importance, as the company now needs to validate product-market-fit also for other LOI-holders Samancor, Richard Bay Alloys as well as for a potential European market. But, considering Glencore's past commitment to Swedish Stirling, being an anchor investor in the canceled preference rights isssue, we remain optimistic that the two parties will agree to a win-win-agreement in a not to distant future.

South African energy crisis underpins demand

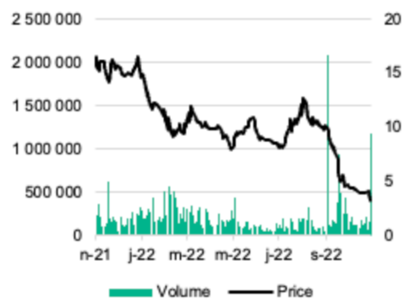
Although largely sheltered from Russia's war in Ukraine, there is an ongoing energy crisis in South Africa, where the "load-shedding" (planned power loss) has gone from two hours per day, to eight hours in some parts of the country, simply because there's not enough power generated. A reliable power supply is crucial for running energy intense business, such as a ferrochrome smelter. When also considering that 80% of the South African energy mix consists of old coal plants (that are not even partciluarly cheap anymore), this does not sit well with Glencore's ambitious sustainability targets. We see plenty of incentives to invest in a technique like the PWR BLOK, that is both economical and environmentally friendly.

Gaining financial muscles to capitalize on new business model

The terms and conditions of the upcoming rights issue have now been announced, and with a strike price of SEK 1.13, the rights issue will entail 176,5m new shares if fully subscribed, diluting non-participating shareholders by 58%. If we also include the conversion of KV4 at the same strike price of SEK 1,13, another 45m shares will be issued, leaving total share coount at 350 million shares post issue. While we make no revisions to our forecast, we find it likely that negotiations with Glencore and other customers will take some time and therefore continue to expect 2 MW worth of PWR BLOKs sold in 2023 and a ramp up to a total of 22 MW sold by 2025. All in all, this translates into a new fair value of SEK 3.2 – 4.3 per share (SEK 9 – 12), based on a combined target multiple and DCF approach. Now near-term focus is on Glencore, where we see progress on a firm deal as the primary trigger.

Swedish Stirling

Current Price, SEK	2,30
Number of Shares (Millions)	128,4
Market Capitalisation (MSEK)	295
Net Debt (MSEK)	-13
Enterprise Value (MSEK)	282
Market	First North



Financial Summary

MSEK	2020	2021	2022E	2023E	2024E	2025E
Sales	0	0	0	45	187	295
Income	53	67	15	70	187	295
EBITDA	-20	-25	-65	-43	-9	48
EBIT	-24	-38	-265	-58	-24	33
EPS Adjusted	-0,50	-0,54	-2,28	-0,67	-0,41	0,01
Sales Growth, %	n.m.	n.m.	n.m.	n.m.	320%	58%
EBITDA Margin, %	n.a.	n.a.	n.a.	-1,0	0,0	0,2
EBIT Margin, %	n.a.	n.a.	n.a.	-1,3	-0,1	0,1
EV/Sales	n.a.	n.a.	n.a.	6,33	1,51	2,68
EV/EBITDA	-56,4	-69,2	-4,3	-6,6	-31,1	16,4
EV/EBIT	-48,1	-45,3	-1,1	-4,9	-11,7	23,6
P/E	-26,4	-28,1	-1,0	-3,4	-5,7	195,1

Source: Emergers

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