Cindrigo Holding Ltd.

Important agreements in place for geothermal power plant rollout

Andreas Eriksson | 2023-04-06 20:00

With a prolonged Russian cut-off from Europe, Russia's energy war against the natural gas-dependent continental Europe has put self-sufficiency of sustainable energy at the top of the agenda. Cindrigo is now in the starting blocks of a geothermal power multi-plant rollout, starting with 20MW in Croatia operational in 2024, to produce a total of +150 MW of clean baseload power by 2026. We now find support for a risk-adjusted fair value range of GBP 1.00-1.20 per share, solely based on the Croatia projects, noting that a successful rollout should elevate the fair value to roughly GBP 2.00 per share in 2024, and where the company's plan for a broader rollout could lift Cindrigo into a multi-billion GBP-company.

Macro trends pave the way for clean baseload power

Decreasing deliveries of Russian natural gas combined with rising inflation and interest rates have put the European energy market under pressure. The demand for baseload power is high, and geothermal power is one of few renewable baseload power sources, next to bio- and hydropower. Geothermal can be used anywhere, but due to differences in topography, some geographic areas are better suited than others. Despite the current financial climate, renewable energy companies have been solid, and seen as safe haven by investors. One example is NYSE listed Ormat Technologies, currently trading at 36x EBITDA.

Large portfolio of renewable energy projects

Through the acquisition of Energy Co-Invest Global (ECG), Cindrigo gets access to a large portfolio of renewable energy projects at various stages of development. The initial focus will be in Croatia, where Cindrigo has a license to construct a 20MW geothermal power plant (Slatina 3), but where the company sees a high probability to add additional licensing blocks of up to a total of 100MW at the 57 sq.km. site alone. With the ECG-portfolio, Cindrigo also sees plenty of opportunities for further expansion into Croatia, Serbia, Hungary, and Romania. Despite current market conditions, Cindrigo has managed to sign a USD 75m Finance Framework Agreement with Abu Dhabi based Petroline Energy, where Petroline will invest an initial GBP 23m into Slatina 3 through a 10-year convertible note at 6.5% per year. Cindrigo has also secured a Framework Agreement with geothermal industrial giant Kaishan, regarding an EPC- and O&M contract for Slatina 3, including financing of 70%.

Unlocking potential with focus on proximate cash flows

We see the rollout in Croatia as the fundamental core of our valuation of Cindrigo and the base for our DCF and peer multiple approach, and consider the remainder of the ECG project portfolio as high-value options. With a gradual rollout, with securing project financing as a first step, constructing the first 20 MW plant by 2024 to reach +150 MW by 2026 we find support for a fair value range of GBP 1.00-1.20 per share in 12-24 months (including estimated accumulated debt and dilution effect from new equity), while a succesful multi-plant rollout indicates a significantly higher upside. The upcoming listing on London Main Market will be an important step as it can provide easier access to external capital (each plant will be run in its own SPV with external funding required for each plant), at least until internally generated cash flows can be re-invested. In light of the recent discussions with suitable partners and the low risk nature of geothermal power contracts, we remain optimistic about the company's long-term rollout plan.

Cindrigo

Current Price, GBP	-
Shares (M)	146
Shares fully diluted (M)*	200
Mkt Cap (MGBP)	-
Net Debt (MGBP)	-
EV (MGBP)	-
Market	London Main Market

*Including outstanding convertibles, warrants and loan notes

Financial summary

MGBP	2023e	2024e	2025e	2026e
Revenue	-	13	101	202
EBITDA	-	7	55	121
EBIT	-	5	47	95
EPS Adjusted	-	0,02	0,18	0,36
Sales Growth, %	-	-	700%	100%
EBITDA Margin, %	-	54%	54%	60%
EBIT Margin, %	-	42%	47%	47%
EV/Sales*	-	11,5	1,4	0,7
EV/EBITDA*	-	21,4	2,7	1,2
EV/EBIT*	-	27,3	3,1	1,5

*target multiples based on a share price of GBP 1.00. Source: Emergers

A brief history

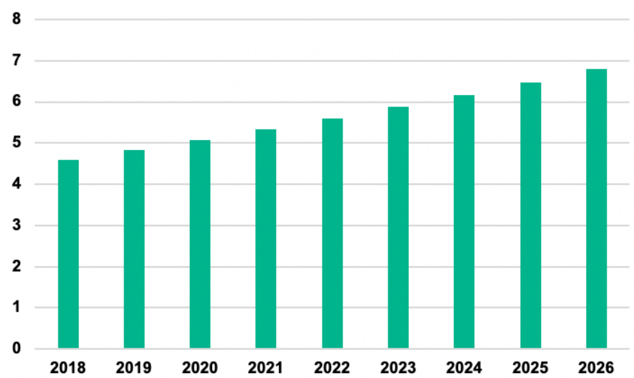
Cindrigo is a renewable energy company bringing together a team that has a long track record of delivering high quality power plants and investment returns. The team is composed of well-known leaders, such as former Swedish Minister of Energy and Minister of Interior Jörgen Andersson, former CFO and 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 renewable energy projects, 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 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)



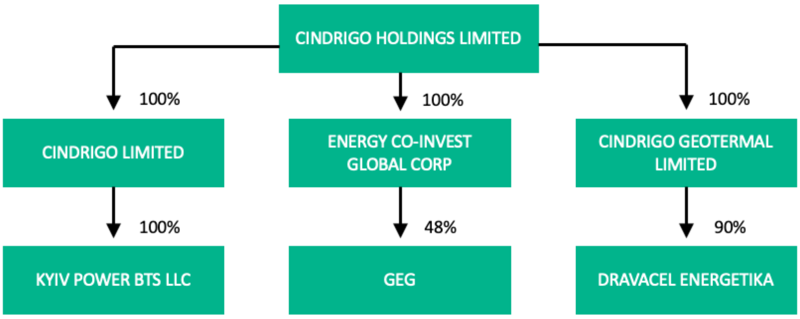
Source: Allied Market Research

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 baseload 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 holds a 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.

Cindrigo Company Structure



Source: Emergers

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, indicating a lot of competence and know how.

Rollout plan and partners

The initial focus will be in Croatia, where Cindrigo holds a 57 km^2 area with a minimum capacity of a three 20MW geothermal plants. The initial site and its geothermal resource have been investigated by the Croatian Hydrocarbon Agency and the company has been granted a geothermal license. There is a likely potential to expanding and adding additional license blocks in Croatia and neighboring markets. Cindrigo estimates a construction period of up to 24 months per plant, and we assume the first 20MW plant to be operational in 2024. An estimated project cost of GBP 60-70m per 20MW, where we expect a yield of GBP 25m and an EBITDA of GPB 15m annually.

Rollout plan Croatia

		2024E	2025E	2026E
Installed MW		10	80	160
Plants á	20 MW	0,5	4	8
Total NPV (mGBP)		70	563	1125
Cindrigo %		90%	90%	90%
Cindrigo share (mGBP)		63	506	1013

Source: Emergers.

Further rollout and possibilities

Besides the geothermal projects in Croatia, ready stages in Chile and Kenya, Cindrigo has, through its acquisition of ECG and thereby GEG, a large portfolio of potential projects in various ready stages. In addition, there are 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.

As stated, the initial focus will be in Croatia, but Cindrigo has already identified a number of suitable projects in other geographical areas. 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.

Forecast

As the company's main focus in the short term primarily will be on Slatina 3 in Croatia, with an initial capacity of 20MW and potential for expansion to 100MW, and 200-400 MW in Croatia alone. Development for the first 20MW is expected to take 16-24 months.

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 Cindrigo's 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 contracted plants in a ten-year period of time is highly dependent on the success of the initial plants. 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. Basically, once a geothermal power plant is up and running, it's a money-making machine, although associated with high initial CAPEX, which puts pressure on the financing structure. Cindrigo as an investment case comes down to whether the company gets the ball in motion and starts rolling out plants in the next five-year period. We are optimistic, especially considering the management team and their connections, that Cindrigo will succeed on this larger scale.

After cleaning the balance sheet before being listed on London Main Market, re-negotiating loans while injecting new capital, including a new convertible loan from largest shareholder DANIR, to ensure a ramp up of the initial projects. This means, Cindrigo will start its life as publicly listed company with a healthy balance sheet with attractive conditions to their outstanding debt. The restructuring of both short- and long-term debt through convertibles, if converted at lowest possible strike price would dilute current shareholders with an additional 40m shares, or about 21%.

Valuation

Our valuation is solely based on the initial projects in Croatia reaching an contractual capacity of 160MW 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 SPV which owns the site and drilling rights. We estimate project costs to GBP 60-70m per 20MW. The dilution from financing will reduce for each new plant, as cash flows are re-invested. We assess that a 90% Cindrigo stake in the first Croatia project to have a NPV of GBP 140m 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 GBP 1.10-2.30 per share
We assume Cindrigo will reach a total of 160MW worth of capacity by 2026. For each year, we discount the NPV with a probability weight with a range from 65-85-100% likelihood, leaving us with a fair value range of GBP 1.10 per share at 65% likelihood, GBP 2.30 per share at 85% and GBP 4.00 at 100%. Based on that Cindrigo successively increase their self-financing-ratio. These figures also include the assumed built up project debt and new equity needed to finance the Croatian projects.

Peer/multiple indicates fair value range between GBP 2.70-3.30 per share
There are several comparable listed companies who operates in the green power supplying area, but American Ormat Tech is the closest peer with regards to the geothermal focus while others operate in the renewable energy sector. The peer group is valued at EV/EBITDA in a range of 7.9 – 36.0 with a median of 12.3x EBITDA.

Listed peers

	Fx	Market Cap	EV	Revenue (M)	EBITDA (M)	CAGR 1y	EBITDA% Avg. 1y	EV/S	EV/ EBITDA	Stock dev. 1y
EDP Renovaveis	EUR	19 158	25 388	2 378	2 083	35,1%	95,9%	10,7	12,2	-11,2%
Eversource Energy	USD	29 410	51 222	11 742	4 099	22,1%	35,4%	4,4	12,5	-5,5%
Ormat Tech	USD	4 748	6 705	734	186	10,7%	49,1%	9,1	36,0	3,3%
Polaris Infrastructure	CAD	259	325	59	41	11,8%	86,1%	5,6	7,9	-23,1%
Average								7,5	17,1	
Median								7,4	12,3	

Source: Emergers

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. 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 2025E indicates a fair value of GBP 2.7 per share, whereas Ormat's 36x EBITDA 2025E indicates GBP 9.8 per share.

Peer multiple valuation

MGBP		2024e 10MW	2025e 80MW	1000MW
EBITDA multiple (pot. value)	10	68	546	6 820
Peer avg. EBITDA multiple (pot. value)	12	82	655	8 184
Ormat EBITDA multiple (pot. value)	36	246	1 964	24 551
No. of Shares*		146	200	250
Fair value EBITDA GBP/share		0,5	2,7	27,3
Fair value peer avg. EBITDA GBP/share		0,6	3,3	32,7
Fair value Ormat EBITDA GBP/share		1,7	9,8	98,2

Source: Emergers. Not considering execution risk. *Estimates of increasing no. of shares.

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.

In our view, the investment case of Cindrigo boils down to how quick, and at what terms new capital can be raised to finance the rollout. Since the company is pursuing a somewhat untouched market with huge growth opportunities, and is run by a management with proven track record, almost all the pieces are in in place for success. The only question left to be answered is the availability to external capital to fuel a multi-plant rollout.

Timeline & probability weighted equity value

	STAGE 1		STAGE 2	STAGE 3
	2023E	**2024E**	**2025E**	**2026E**
CROATIA TIMELINE	Proj. financing (Kaishan, Petroline, Croatian Banks) Construc. start **20** MW	Prod. start first **10** MW New contracts signed up to **200** MW Construc. start (3x **20** MW)	Construc. start (4x 20 MW) Prod. start **80** MW	**160** MW installed **expansion** in Pannonian Basin
Number of New Plants Installed (20 MW)	-	0,5	3,5	4
Capital Requirement (mGBP)	-	27	189	216
Installed Base (MW)	-	10	80	160
Annual Revenue (mGBP)	-	13	101	202
Annual EBITDA (mGBP)	-	7	55	121
NPV (WACC 7%)	1013			
New Equity	86			
New Debt	346			
Existing Shareholder's Equity Value	581			
65% Annual Probability Weight	27%	42%	65%	100%
Probability Weighted Implied Equity Value	**160**	**245**	**378**	**581**
Probability Weighted Implled Fair Value Per Share	**1,1**			

Source: Emergers

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 Kaishan and 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.

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.

CEO & Director: 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.

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. Mr Oxley also serves as chairman of the board of GEG.

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.

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.

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