This report was completed and disseminated 12 September 2022: 7:45 CEST

ERIK PENSER BANK

Penser Access | Alternative Power Generation | Sweden | 12 September 2022

Midsummer

Strong growth as Italian expansion continues

Persistent strong growth in Q2 22 and Italian expansion in progress

Midsummer reported sales of SEK 13.1m (10.1) and growth of 30% in Q2. Solar cell roofs grew by 27%. At SEK 18m, total order intake equates to growth of 33%. EBIT amounted to SEK -50.3m, a significant setback against the preceding year (SEK -32.8m), as the high costs of the important and significant expansion of production capacity in Italy mount up.

Weak cash flows in the near term, but large payment expected in November 22

The new plant in Italy, which will increase production capacity (from 2 MW) to 50 MW per year, is affecting cash flow and cash used in Q2 22 amounted to SEK -65.8m. On a positive note, however, the company expects a payment of EUR 22m from the Italian government in November 2022 and the balance sheet should return to showing strength in the near term.

Fair value SEK 18-20

We are lowering our fair value to SEK 18-20 (19.21) to reflect the research department's new RRR framework for small companies. We assign an EV/S multiple of 4 to the share, based on sales in 2025 discounted to present value. The EV/S multiple is in line with companies listed in the US, which we believe will provide guidance when the company is considered a major regional player when the Italian expansion is completed.

Calendar Events

Q3 report	11 nov 2022
Q4 report	24 feb 2023

Key Figures (mkr)

Number of shares	68m
Market cap	688
Net debt	163
EV	851
Free float	82%
Avgerage number of daily traded shares	149(k)
Reuters/Bloomberg	MIDSU.ST/MIDS:SS

Estimates (kr)

	21	22e	23e	24e
Sales, mkr	94	146	151	369
Growth	31%	55%	3%	145%
EBITDA, mkr	(72.8)	(10.8)	(50.6)	43
EBIT, mkr	(111)	(46)	(92)	9
EPS, adjusted	(2.2)	(1.0)	(1.7)	(0.7)
EPS growth	nm	nm	nm	nm
Equity/share	3.7	2.7	1.0	0.3
Dividend/share	0.0	0.0	0.0	0.0
EBIT margin	(117.6)%	(31.7)%	(61.0)%	2.4%
ROE	nm	nm	nm	nm
ROCE	nm	nm	nm	1.6%
EV/Sales	9.0x	5.8x	5.6x	2.3x
EV/EBITDA	(11.7)x	(78.9)x	(16.8)x	19.8x
EV/EBIT	(7.7)x	(18.4)x	(9.3)x	95.5x
P/E, adjusted	(4.7)x	(10.1)x	(5.8)x	(15.4)x
P/Equity	2.7x	3.7x	10.3x	31.6x
Dividend yield	0.0%	0.0%	0.0%	0.0%
FCF yield	nm	(16.9)%	(32.1)%	(12.3)%
Net debt/EBITDA	(0.8)g	(14.9)g	(7.1)g	10.1g

Risk and Potential

Motivated value	**18.0 - 20.0**
Current price	SEK10.2
Risk level	High

One Year Performance Chart

Analysts

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Overview

Strong growth as Italian expansion continues

Investment Case

In our assessment, demand for renewable energy will remain strong due to high gas and electricity prices in Europe. Solar power, unlike wind and other renewable sources of energy, is small-scale, which entails relatively short lead-times because the permit process is simpler and the energy is produced in connection with consumption, which eliminates the needs for large investments in electricity grids. A solar energy installation also increases the value of a property. Combined with the cost-lowering effect of replacing gas or electricity, this creates a strong incentive for property owners to invest in a solar installation. Although the Swedish market is a key driver of demand, we see the greatest potential in the European market because solar energy in Sweden is produced only during the day and at the time of year when demand for electrical energy is lowest.
Midsummer produces a special type of solar cells under brands including “Slim” and “Wave”, which are light-weight structures that either blend in on an existing tile roof or replace a traditional folded sheet metal roof. The light-weight structure enables installation on weak roof structures that cannot bear the load of a traditional solar cell installation. Wave blends into an existing tile roof in a completely different way than conventional solar panels in frames, and appeals to many customers who dislike the visible change resulting from a conventional solar cell installation. The product is sold at a distinctly premium price compared to traditional installations, although the price to the customer does not differ as much due to simpler installation.

Midsummer’s technology is based on thin film technology, a semiconductor applied to a steel substrate, and differs significantly from conventional solar panels in terms of production and transport. This is leading to a market-leading position in terms of carbon footprint, and a smaller footprint than wind and hydro power. We believe thin film technology is going to strongly outperform conventional solar panels, which have lost their major competitive advantages: a fully globalised world strongly dependent upon exports from China and low prices for fossil-based energy, which is the most important production factor for conventional panels.

Midsummer is building an entirely new factory in Italy, financed entirely with government grants and soft loans. This will open the Southern European market to Midsummer. Solar energy conditions are considerably better in Southern Europe than at our latitudes, which creates scope for higher growth and better margins.

Company Profile

Midsummer is a Swedish producer of solar cells. The technology is based on an internally developed production process. In brief, it is based on a semiconductor layer, which involves various metals being “deposited” onto a substrate, such as sheet metal, before they are milled and etched to obtain the desired structure.

Valuation approach

We value Midsummer with an EV/S multiple of 4 based on sales in 2025 discounted to present value with a WACC of 9.8%. The EV/S multiple is in line with larger companies listed in the US. At present, Midsummer is a small and local Swedish player, but in our assessment, the company is going to be regarded as a major regional player via its expansion in Europe, and will thus be valued in parity with comparable companies. Applying this method, we value Midsummer at SEK 19/share, which gives a fair value of SEK 18-20 per share.

The quarter in detail

Midsummer reported sales of SEK 13.1m (10.1) and growth of 30%. Solar cell roofs grew by 27%. Total order intake of SEK 18m equates to growth of 33%. EBIT amounted to SEK -50.3m, which is a significant setback against the preceding year (SEK -32.8m), as the high costs of the important and significant expansion of production capacity in Italy mount up.

According to the company, capacity in the Swedish factory is sold out through Q2 23 due to the strong demand and Midsummer is now looking at expanding production capacity in Sweden and, at a later stage, in other countries in Europe.

The new plant in Italy, which will increase production capacity (from 2 MW) to 50 MW per year, is affecting cash flow and cash used in Q2 22 amounted to SEK -65.8m. On a positive note, however, the company expects a payment of EUR 22m from the Italian government in November, meaning the balance sheet will return to showing strength in the near term.

No forecast changes

We are leaving our forecasts unchanged after the Q2 22 report.

Valuation

We have chosen to apply a relative valuation model to Midsummer. The method is preferable because equities in the renewable energy sector are normally highly valued. As peers, we have selected several larger solar cell companies based on the argument that Midsummer is about to evolve into a significant regional player, with proprietary technology that is not based on Chinese imports and which has the absolutely lowest carbon footprint of all commercially successful renewable energy sources based on established technology. This compensates for the fact that we are comparing a small company listed in Sweden with significantly lower market value than these more well-established competitors.

		Marcet cap	EV/Sales			EV/EBIT			P/E			Net debt / EBITDA		
	Ticker	mkr	2022e	2023e	2024e	2022e	2023e	2024e	2022e	2023e	2024e	2022e	2023e	2024e
First Solar	FSLR-US	139 611	4,4x	3,4x	2,7x	425,9x	49,7x	16,2x	n/a	75,3x	23,0x	-12,1x	-1,9x	-1,4x
Azure Power Global	AZRE-US	2 961	5,7x	5,2x	n/a	9,2x	8,2x	n/a	4,5x	3,6x	n/a	4,5x	5,1x	n/a
Clearway Energy	CWEN-US	46 388	9,6x	9,3x	9,0x	31,8x	28,6x	26,1x	14,0x	30,9x	29,6x	5,5x	5,7x	5,7x
Sunrun	RUN-US	73 544	7,0x	6,6x	5,7x	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	72,6x
SunPower	SPWR-US	44 984	2,6x	2,2x	1,9x	120,5x	33,7x	19,4x	126,4x	38,4x	24,6x	-0,5x	-1,2x	-1,6x
VivoPower	VVPR-US	256	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
SolarEdge	SEDG-US	164 131	5,0x	3,9x	3,2x	48,1x	27,0x	20,3x	50,6x	30,8x	24,4x	-1,8x	-1,7x	-1,9x
Canadian Solar	CSIQ-US	29 937	0,7x	0,6x	0,5x	15,6x	10,0x	9,5x	17,0x	10,9x	9,6x	2,6x	2,4x	1,8x
Medel		**62 726**	**5,0x**	**4,5x**	**3,9x**	**108,5x**	**26,2x**	**18,3x**	**42,5x**	**31,6x**	**22,2x**	**-0,3x**	**1,4x**	**12,5x**
Median		**45 686**	**5,0x**	**3,9x**	**3,0x**	**39,9x**	**27,8x**	**19,4x**	**17,0x**	**30,8x**	**24,4x**	**1,0x**	**0,6x**	**0,2x**

Source: Factset

We believe the market will increasingly mark up the value of companies like Midsummer, which are working with utterly different types of barriers, compared to conventional solar panel suppliers. This is going to take time, however, and is naturally based on Midsummer successfully completing its journey from minor Swedish firm to significantly larger European market player.

We value Midsummer with an EV/S multiple of 4 based on sales in 2025 discounted to present value with a WACC of 9.8%. This WACC reflects the research department's new required rate of return framework for small companies. The EV/S multiple is in line with larger companies listed in the US, with a mean value of 5 rounded off downwards. At present, Midsummer is a small and local Swedish player, but in our assessment the company is going to be regarded as a major regional player via its expansion in Europe, and will thus be valued in parity with comparable companies in other markets.

Relative valuation

Sales 2025e, SEKm	583
EV/S multiple (mean of peers, rounded down)	4
Enterprise value 2025e, SEKm	2 332
Net debt 2025e, SEKm	-466
Equity value 2025e, SEKm	1 867
WACC	9,8%
Current value, SEKm	1 286
Shares, m	67,7
Value per share	19

Source: EPB

Sensitivity table multiple valuation

	WACC		
EV/S	**8,8%**	**9,8%**	**10,8%**
3	14	13	13
3,5	17	16	15
4	20	19	18
4,5	23	22	21
5	26	25	24

Källa: EPB

Valuation DCF including sensitivity tables:

Valuation output	
Sum of PV of FCF (explicit period)	130 700
PV of terminal value (perpetuity formula)	599 105
Enterprise value	**729 806**
Latest net debt	162 654
Minority interests & other	-
Equity value	**567 152**
No. of shares outstanding (millions)	67 741,4
Equity value per share (SEK)	**8**

Implicit multiples	2025	2026	2027
EV/Sales	1,3	1,1	1,0
EV/EBITDA	8	7	6
EV/EBIT	12	10	9
EV/NOPLAT	15	12	11
Current Share price			**10**
Upside / Downside %			-16%

WACC assumptions	
Risk free nominal rate	2,5%
Risk premium	5,5%
Extra risk premium	4,0%
Beta	1,0
Cost of equity	12,0%
Cost of debt (pre-tax)	8,0%
Tax rate	20%
Target debt/(debt + equity)	40%
WACC	9,8%

Terminal value assumptions	
Long term growth rate	4,0%
Long term EBIT margin	12,0%
Depreciation (% of sales)	3,0%
Capex (% of sales)	3,0%
Working cap. (% of sales)	25%
Tax rate	20%

Sensitivity analysis

		Long-term growth rate				
		3,0%	3,5%	4,0%	4,5%	5,0%
	8,8%	10	11	12	13	15
	9,3%	8	9	10	11	13
WACC	9,8%	7	8	8	9	10
	10,3%	6	6	7	8	9
	10,8%	5	5	6	7	7

		Long-term EBIT margin				
		7,0%	9,5%	12,0%	14,5%	17,0%
	8,8%	6	9	12	15	18
	9,3%	5	7	10	13	15
WACC	9,8%	4	6	8	11	13
	10,3%	3	5	7	9	11
	10,8%	2	4	6	8	10

Källa: EPB

Historical share price and fair value

Source: Factset, EPB

P&L, SEKk

	2019	2020	2021	2022e	2023e	2024e	2025e	2026e
Net sales	**184 468**	**71 954**	**94 406**	**146 230**	**150 778**	**368 933**	**583 093**	**640 202**
Growth	Nm	-61%	31%	55%	3%	145%	58%	10%
Capitalised work on own account	13 845	23 562	24 868	21 834	21 862	21 846	29 155	32 010
Other operating income	2 857	23 513	16 995	101 906	12 000	12 000	17 493	19 206
Costs of goods sold	-107 153	-41 199	-91 969	-141 843	-75 389	-184 467	-291 547	-320 101
Gross profit	**94 017**	**77 830**	**44 300**	**128 127**	**109 252**	**218 313**	**338 194**	**371 317**
Cost of goods sold / Net sales	58%	57%	97%	97%	50%	50%	50%	50%
Other external costs	-18 627	-17 994	-33 968	-51 180	-52 772	-64 563	-102 041	-112 035
Staff costs	-65 905	-72 176	-78 118	-87 738	-107 053	-110 680	-145 773	-153 649
EBITDA	**9 012**	**-50 043**	**-72 774**	**-10 792**	**-50 574**	**43 070**	**90 379**	**105 633**
EBITDA margin	4,9%	-69,5%	-77,1%	-7,4%	-33,5%	11,7%	15,5%	16,5%
Depreciation	-32 108	-24 445	-38 226	-35 547	-41 390	-34 154	-31 462	-30 980
EBIT	**-23 096**	**-74 488**	**-111 000**	**-46 338**	**-91 963**	**8 916**	**58 918**	**74 653**
EBIIT margin	-12,5%	-103,5%	-117,6%	-31,7%	-61,0%	2,4%	10,1%	11,7%
Financial income	1 380,0	876,0	1 945,0	-	-	-	-	-
Financial costs	-13 733	-18 871	-21 175	-21 553	-26 553	-51 553	-25 777	-25 777
Pre-tax profit	**-35 449**	**-92 483**	**-130 230**	**-67 892**	**-118 517**	**-42 638**	**33 141**	**48 877**
Tax, actual	-4 843	-	719	-	-	-2 132	3 314	4 888
Net income	**-40 292**	**-92 483**	**-129 511**	**-67 892**	**-118 517**	**-44 770**	**36 455**	**53 764**
EO items, after tax	-	-	-	-	-	-	-	-
Net profit, adjusted	**-40 292**	**-92 483**	**-129 511**	**-67 892**	**-118 517**	**-44 770**	**36 455**	**53 764**
Net margin	-21,8%	-128,5%	-137,2%	-46,4%	-78,6%	-12,1%	6,3%	8,4%

Source: Company, EPB

Balance sheet, SEKk

	2019	2020	2021	2022e	2023e	2024e	2025e	2026e
Assets								
Fixed assets								
Intangible assets	31 434	45 436	53 249	78 839	105 225	123 672	152 827	184 837
Tangible assets	35 904	66 571	142 186	150 508	124 196	108 489	103 266	101 096
Right-of use assets	25 204	14 882	12 333	12 333	12 333	12 333	12 333	12 333
Finacial fixed assets	40	40	40	40	40	40	40	40
Total Fixed assets	**92 582**	**126 929**	**207 808**	**241 721**	**241 795**	**244 534**	**268 466**	**298 305**
Current assets								
Inventories	23 732	26 682	30 384	33 042	73 115	120 623	184 467	204 083
Accounts receivable	6 464	22 767	22 782	28 322	43 869	60 311	110 680	116 619
Other current assets	117 862	126 405	71 101	66 084	102 361	105 545	73 787	116 619
Cash and cash equivalents	111 015	217 610	159 161	110 213	157 953	65 808	50 016	43 389
Total current assets	**259 073**	**393 464**	**283 428**	**237 661**	**377 298**	**352 287**	**418 949**	**480 709**
Total assets	**351 655**	**520 393**	**491 236**	**479 381**	**619 093**	**596 821**	**687 415**	**779 015**
Equity & liabilities								
Equity								
Equity	100 271	255 933	252 956	185 064	66 548	21 778	58 233	111 998
Total long-term liabilities								
Long-term interest-bearing liabilities	213 774	209 294	207 823	257 823	507 823	507 823	507 823	507 823
Long-term lease liabilities	0	0	0	0	0	0	0	0
Other long-term liabilities	1 484	187	0	0	0	0	0	0
Long-term liabilities	**215 258**	**209 481**	**207 823**	**257 823**	**507 823**	**507 823**	**507 823**	**507 823**
Total current liabilities								
Current interest-bearing liabilities	8 154	6 331	7 710	7 710	7 710	7 710	7 710	7 710
Accounts payable	16 249	34 387	10 107	14 161	21 934	22 617	55 340	87 464
Other current liabilities	11 723	14 261	12 640	14 623	15 078	36 893	58 309	64 020
Total current liabilities	**36 126**	**54 979**	**30 457**	**36 494**	**44 722**	**67 220**	**121 359**	**159 194**
Total equity & liabilities	**351 655**	**520 393**	**491 236**	**479 381**	**619 093**	**596 821**	**687 415**	**779 015**

Source: Company, EPB

Cash flow statement, SEKk

	2019	2020	2021	2022e	2023e	2024e	2025e	2026e
EBIT	-23 096	-74 488	-111 000	-67 892	-118 517	-42 638	33 141	48 877
Paid tax/other	7 107	1 912	22 844	0	0	-2 132	3 314	4 888
Depreciation	0	0	0	35 547	41 390	34 154	31 462	30 980
Working capital	-56 889	-7 118	24 769	2 856	-83 668	-44 636	-28 315	-30 552
Cash flow from operations	**-72 878**	**-79 694**	**-63 387**	**-29 489**	**-160 795**	**-55 252**	**39 602**	**54 193**
Cash flow from investments								
Investments in fixed assets	-31 294	-29 081	-90 347	-43 869	-15 078	-18 447	-26 239	-28 809
Investments in intangible fixed assets	-13 895	-23 919	-25 000	-25 590	-26 386	-18 447	-29 155	-32 010
Cash flow from investments	**-45 189**	**-53 000**	**-115 347**	**-69 459**	**-41 464**	**-36 893**	**-55 394**	**-60 819**
Cash flow from financial activities								
Change in liabilities	0	0	0	50 000	250 000	0	0	0
New issue	0	247 963	125 870	0	0	0	0	0
New loans	190 561	-6 480	-535	50 000	250 000	0	0	0
Leasing debt	-14 832	-2 891	-6 363	0	0	0	0	0
Cash flow from financial activities	**175 729**	**238 592**	**118 972**	**50 000**	**250 000**	**0**	**0**	**0**
Change in cash and cash equivalents	**57 662**	**105 898**	**-59 762**	**-48 948**	**47 741**	**-92 145**	**-15 792**	**-6 627**
Cash and cash equivalents	**111 015**	**217 610**	**159 161**	**110 213**	**157 953**	**65 808**	**50 016**	**43 389**

Source: Company, EPB

Key ratios

Growth and margins

	2019	2020	2021	2022e	2023e	2024e	2025e	2026e
Revenue growth		-61%	31%	55%	3%	145%	58%	10%
EBITDA growth, adjusted		-655%	nm	nm	nm	nm	110%	17%
EPS growth, adjusted		nm	nm	nm	nm	nm	nm	47%
Gross margin	51%	108%	47%	88%	72%	59%	58%	58%
EBITDA margin, adjusted	5%	neg	neg	neg	neg	12%	16%	17%
EBIT margin, adjusted	neg	neg	neg	neg	neg	2%	10%	12%
Tax rate	0%	0%	0%	0%	0%	-5%	-10%	-10%

Return

	2020	2021	2022e	2023e	2024e	2025e	2026e
ROE, adjusted	neg	neg	neg	neg	neg	91%	63%
ROCE, adjusted	neg	neg	neg	neg	2%	11%	12%
ROIC	neg	neg	neg	neg	2%	12%	13%
Inventories / total revenue	37%	32%	23%	48%	33%	32%	32%
Working Capital / total revenue	312%	156%	107%	170%	94%	83%	92%
Capital turnover rate	0,1x	0,2x	0,3x	0,2x	0,6x	0,8x	0,8x

Financial position

	2019	2020	2021	2022e	2023e	2024e	2025e	2026e
Net debt	110 913	-1 985	56 372	155 320	357 580	449 725	465 517	472 144
Equity ratio	29%	49%	51%	39%	11%	4%	8%	14%
Net debt / equity ratio	111%	-1%	22%	84%	537%	2065%	799%	422%
Net debt / EBITDA	12,3x	0,0x	-0,8x	-14,4x	-7,1x	10,4x	5,2x	4,5x

Per share

	2019	2020	2021	2022e	2023e	2024e	2025e	2026e
EPS	-1,3	-2,7	-2,2	-1,0	-1,7	-0,7	0,5	0,8
EPS, adjusted	-1,3	-2,7	-2,2	-1,0	-1,7	-0,7	0,5	0,8
FCF per share	-3,8	-3,8	-3,0	-1,5	-3,0	-1,4	-0,2	-0,1
Dividend per share	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
BV per share	3,2	4,3	3,7	2,7	1,0	0,3	0,9	1,7

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