



ERIK PENSER BANK

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Advanced Soltech Sweden AB

Refinancing largely completed

A quarter with a better balance sheet

The Q3 2023 report was characterised by a clearly improved balance sheet. The large SOLT2 and SOLT3 bonds have now been fully repaid. The final outstanding bond, SOLT4 (about SEK 70m) has been extended until November 2024. The financing of this has been resolved via new issues totalling SEK 176m and bank financing in China. The latter reduces interest expenses thanks to lower credit margins and a generally lower level of interest rates. The company saw profits of SEK 4m during the quarter, versus accumulated losses of SEK -74m for H1 2023, owing to lower interest expenses. Solar radiation was lower y/y, leading to largely unchanged net sales, despite 13% larger installed solar cell capacity. We adjust our forecasts on account of the relatively weaker quarter and the revised number of shares.

Acceleration in installed capacity in the coming years

Thanks to new financing, there is room for capacity expansion to take off in the coming years. The target is to increase installed capacity to 1,000 MW by the end of 2026, from 258 MW as of 9M 2023. ASAB's model is scalable and not tied to a specific technology, but the entry barriers remain high on account of the particularly capital-intensive business model. Fixed tariffs on electricity spell stable revenues, while the capital-intensive nature of the business implies high margins, and long-term cash flow generation is thus both high and offers decent visibility.

Unchanged fair value

We consider ASAB a power producer and thus compare it with a group of international power producers. Given a justified EV/EBIT of 18x – which stems from comparing the total of EBIT growth and EBIT margin with the peer group – we arrive at a fair value of SEK 14.0–15.5. We apply a discount on account of ASAB being clearly smaller than its peer group companies and dependent on a single market. Once the new financing is secured and as capacity expansion continues to accelerate, we expect the discount to narrow. We consider our estimates conservative and, given its new financial structure, the company should be able to secure local financing at attractive levels, prompting a significant increase in the investment level, and thus its growth, relative to our estimates.

Estimate changes			Forecasts (SEKm)				Valuation and risk			
	23e	24e	25e	2022	2023e	2024e	2025e	Fair value	SEK 14,0 - 15,5	
Total revenues	-7,3%	-0,1%	-0,3%	204	226	274	283	Share price	SEK 7,1	
EBIT, adj.	-18,0%	-0,1%	-0,6%	Growth	33%	11%	21%	3%	Risk level	Medium
EPS, adj.	N.m.	10,6%	9,6%	EBITDA, adj.	149	161	206	211	<div style="background-color: #006633; color: white; padding: 2px; text-align: center;">12-mth share price development</div>	
Coming events			EBIT, adj.	79	85	122	125			
			EPS, adj.	-0,7	-1,1	1,0	1,0			
Q4 - report	20 February 2024		EPS growth, adj.	N.m.	N.m.	N.m.	6%			
Q1 - report	16 May 2024		Equity per share	12,5	10,7	11,7	12,8			
Company details (SEKm)			Dividend per share	0,0	0,0	0,0	0,0			
			EBIT margin	50,6%	44,6%	61,0%	59,9%			
Number of shares	57m		ROE, adj.	Neg.	Neg.	8,7%	8,5%			
Market capitalisation	406		ROCE, adj.	6,7%	5,3%	7,2%	7,3%			
Net debt	1 030		EV/Sales	8,3x	6,4x	5,2x	5,1x			
EV	1 435		EV/EBITDA	11,4x	8,9x	7,0x	6,8x			
Free float	80%		EV/EBIT	21,4x	16,9x	11,8x	11,4x			
Daily trading volume, average	13k		P/E, adj.	-26,0x	-6,6x	7,2x	6,8x			
Bloomberg Ticker	ASAB SS EQUITY		Price/book value	1,5x	0,7x	0,6x	0,6x			
Analyst			FCF yield	-17%	-86%	27%	0%			
			Net debt/EBITDA	6,4x	7,1x	4,7x	4,6x			

Conflicts of interest

	Yes	No
Liquidity provider	✓	
Certified adviser		✓
Transactions, 12 mth		✓

Örjan Rödén
orjan.rodén@penser.se

Investment case

Appealing exposure to renewable energy generation: Given its goal to reduce greenhouse gases and decrease its dependency on fossil fuels, China is undergoing a shift towards renewable energy sources, of which solar power is a central component. At the same time, electricity demand will continue to increase structurally as electrification accelerates. China is already the world's largest photovoltaic (solar) market, and ASAB offers a unique exposure to this.

Solid market position provides scalability: As it buys in panels from third parties and subcontracts out the installation, the company has what we consider a scalable business model. The availability of capital on attractive financing terms is a limiting factor, but thanks to the new financial structure now in place, its access to capital increases, allowing for the acceleration of installed capacity. We see considerable potential for it to accelerate capacity installation from 2024 thanks to new financing. Its goal is to reach 1,000 MW in installed capacity by the end of 2026, from 252 MW as of the end of H1 2023.

Stable revenues, low risk on the cost side, and high entry barriers: Owing to price controls, the electricity price – which steers ASAB's revenues – has historically been relatively stable. At the same time, we do not see anything that could significantly change the cost base. The business model is capital intensive, creating high entry barriers, and thanks to the stable revenues, we anticipate margins staying put at a high level. The business model is not tied to a specific technology, and the scalability and stability in earnings thus allow for decent visibility for the long-term cash flow generation.

We consider our estimates conservative: Given its new financial structure, the company should be able to secure local financing at attractive terms, which should significantly increase the investment level, and thus its growth. The scalable business model allows for a much higher rate of investment than we currently apply in our model.

Company profile

ASAB is an electricity producer that finances, installs, owns, and operates photovoltaic systems on customers' roofs in China. It then sells the electricity it produces from these systems to the company operating the building in question. Its business idea is to offer industrial, trade, and public administration customers a simple and stress-free method to replace a sizeable amount of their electricity usage with locally produced solar energy, at a discount to the price of electricity from the grid.

ASAB was founded as a joint venture between Swedish solar energy company Soltech Energy Sweden AB (publ) and Chinese solar panel producer Advanced Solar Power Hangzhou (ASP). The company offers solar energy as a service, with the photovoltaic systems installed by a local network of solar panel fitters and retailers in China. The company is responsible for ensuring the financing of its activities. ASAB's headquarters are in Stockholm, but it operates exclusively in China.

Valuation

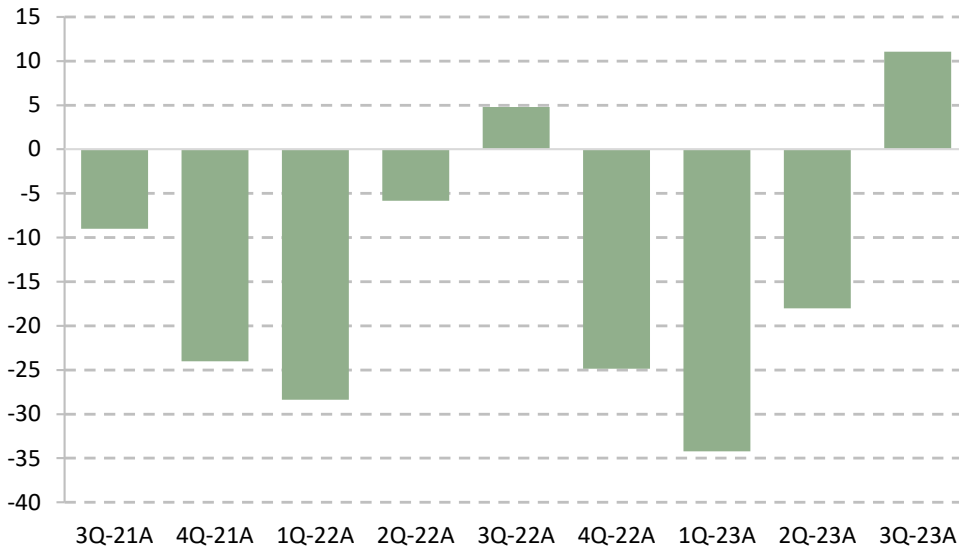
We value ASAB using a combination of relative and absolute models. Our relative valuation compares ASAB with a group of international power producers. ASAB's business model is capital intensive, providing high margins, and we see ASAB as a power producer rather than a solar systems installer.

We calculate our justified EV/EBIT multiple by creating a measure of value creation, which we calculate as the total of EBIT growth and EBIT margin. We then compare this measure with the peer group and thus arrive at a justified multiple. The correlation between our measure of value creation and EV/EBIT is particularly high. We arrive at a justified multiple of 18x and then apply a 25% discount to this to account for the financing situation and ASAB's dependence on a single market. We complement this with a DCF analysis that uses a WACC of 11%, long-term growth of 4%, and a long-term EBIT margin of 45%. We arrive at a fair value of SEK 14.0–15.5.

Brief overview of the quarter

The Q3 2023 report was characterised by a clearly improved balance sheet. The large SOLT2 and SOLT3 bonds have now been fully repaid. The final outstanding bond, SOLT4 (about SEK 70m) has been extended until November 2024. The financing of this has been resolved via new issues totalling SEK 176m and bank financing in China. The latter reduces interest expenses thanks to lower credit margins and a generally lower level of interest rates. The company thus saw profits of SEK 4m in the quarter, versus accumulated losses of SEK -74m in H1 2023.

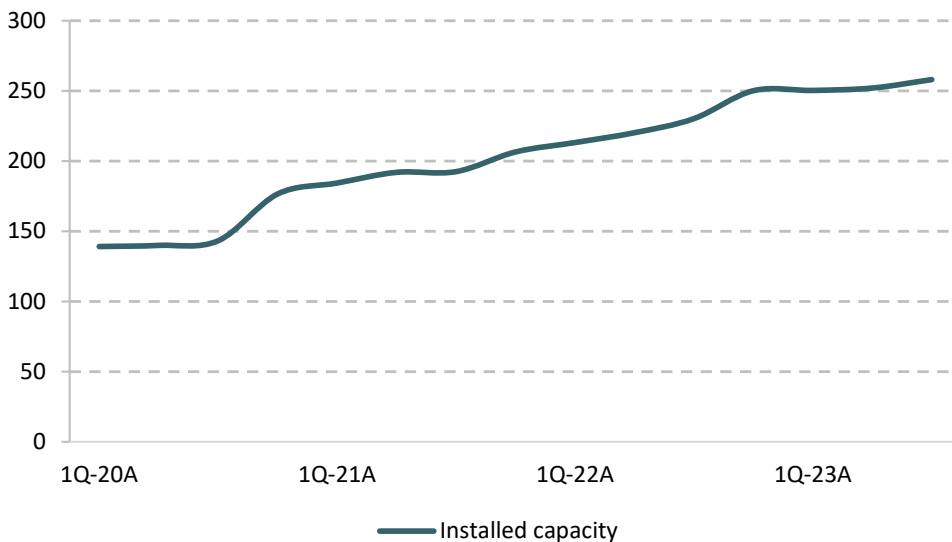
EBIT + net interest income, SEKm



Source: Company, EPB

Solar radiation was lower y/y, leading to largely unchanged net sales, despite 13% larger installed solar cell capacity. After several quarters with no changes, capacity is now being built up, thus generating revenue growth again.

Installed capacity, MW



Source: Company, EPB

Valuation and fair value

Fair value calculation

EBIT 2024e, SEKm	122
EV/EBIT multiple	18
Enterprise value 2024e, SEKm	2194
Net debt 2024e, SEKm	-975
Equity value 2024e, SEKm	1219
Number of shares, m	59,1
Value per share, SEK	20,6
Discount	25%
Basis for fair value, SEK / share	15,5
Fair value range, SEK / share	14 - 15

Source: Company, EPB

Sensitivity analysis – fair value

EV/EBIT	Discount		
	20,0%	25,0%	30,0%
14	9,9	9,3	8,7
16	13,2	12,4	11,5
18	16,5	15,5	14,4
20	19,8	18,6	17,3
22	23,1	21,6	20,2

Source: Company, EPB

DCF – summary

Valuation output		WACC assumptions		Terminal value assumptions	
Sum of PV of FCF (explicit period)	882	Risk free nominal rate	2,5%	Long term growth rate	4,0%
PV of terminal value (perpetuity formula)	1 262	Risk premium	5,5%	Long term EBIT margin	45,0%
Enterprise value	2 144	Small cap premium	4,0%	Depreciation (% of sales)	3,0%
Latest net debt	1 030	Adjustement	-1%	Capex (% of sales)	3,0%
Minority interests & other	0	WACC	11,0%	Working cap. (% of sales)	3,0%
Equity value	1 114			Tax rate	15%
No. of shares,(millions)	57				
Equity value per share	19				

Source: Company, EPB

DCF – sensitivity analysis

		Long-term growth rate					Long-term EBIT margin						
		3,0%	3,5%	4,0%	4,5%	5,0%			40,0%	42,5%	45,0%	47,5%	50,0%
WACC	9,0%	30	33	38	43	49	WACC	9,0%	33	35	38	40	42
	10,0%	22	24	27	30	34		10,0%	23	25	27	29	31
	11,0%	16	17	19	22	24		11,0%	16	18	19	21	23
	12,0%	11	12	14	15	17		12,0%	11	13	14	15	16
	13,0%	7	8	10	11	12		13,0%	7	8	10	11	12

Source: Company, EPB

Income statement

	2019	2020	2021	2022	2023e	2024e	2025e
Net sales	60	86	117	157	174	200	209
Other operating income	45	52	36	47	52	74	74
Total revenues	105	139	154	204	226	274	283
Gross profits	105	139	154	204	226	274	283
Other operating costs	-15	-24	-43	-55	-65	-68	-72
EBITDA	90	115	111	149	154	206	211
Items affecting comparability	0	0	0	0	-7	0	0
EBITDA, adjusted	90	115	111	149	161	206	211
Depreciation	-27	-37	-48	-67	-74	-81	-83
EBITA, adjusted	63	78	63	82	88	125	128
Amortisation	-2	-2	-2	-3	-3	-3	-3
EBIT	61	76	61	79	78	122	125
EBIT, adjusted	61	76	61	79	85	122	125
Net financial items	-79	-163	-37	-114	-139	-64	-64
Profit/loss before tax	-18	-87	24	-35	-61	58	61
Profit/loss before tax, adjusted	-18	-87	24	-35	-54	58	61
Total taxes	4	-10	-7	6	0	0	0
Net income	-14	-97	16	-29	-61	58	61
Net income, adjusted	-14	-97	16	-29	-54	58	61
Revenue growth	-	32%	11%	33%	11%	21%	3%
Gross margin	>100%	>100%	>100%	>100%	>100%	>100%	>100%
EBIT margin, adjusted	>100%	88,2%	51,7%	50,6%	48,8%	61,0%	59,9%
EPS, adjusted	-2 795	-444	0,82	-0,72	-1,07	0,98	1,04
EPS growth, adjusted	-	N.m.	N.m.	N.m.	N.m.	N.m.	6%

Source: Advanced Soltech Sweden AB, EPB

Cash flow analysis

	2019	2020	2021	2022	2023e	2024e	2025e
EBIT	61	76	61	79	78	122	125
Other cash flow items	-32	-73	-56	-34	-15	18	22
Changes in working capital	16	-38	99	131	0	13	17
Cash flows from operating activities	45	-34	104	177	62	153	164
Investments in fixed assets	-433	-136	-296	-359	-368	-40	-164
Investments in intangible fixed assets	-47	0	0	0	0	0	0
Other cash flow from investments	-28	1	-3	55	0	0	0
Cash flows from investment activities	-509	-135	-299	-305	-368	-40	-164
Free cash flows	-464	-169	-195	-128	-305	112	0
Rights issues / buybacks	0	146	227	17	176	0	0
Changes in liabilities	484	49	47	6	78	-100	0
Other items	0	0	-1	-1	0	0	0
Cash flows from financing activities	484	195	273	21	254	-100	0
Cash flows	20	26	78	-106	-51	12	0
Net debt	776	809	798	958	1 088	975	975

Source: Advanced Soltech Sweden AB, EPB

Balance sheet

	2019	2020	2021	2022	2023e	2024e	2025e
ASSETS							
Other intangible assets	47	42	45	45	42	40	37
Tangible fixed assets	955	980	1 374	1 724	2 019	1 978	2 058
Financial fixed assets	91	88	90	43	43	43	43
Other fixed assets	9	8	1	6	8	10	10
Total fixed assets	1 102	1 118	1 511	1 819	2 112	2 070	2 149
Trade receivables	23	24	36	36	41	49	51
Other current assets	26	42	45	57	31	31	31
Cash and cash equivalents and short-term investments	50	73	161	61	9	22	22
Total current assets	99	139	242	155	82	103	104
TOTAL ASSETS	1 201	1 257	1 753	1 973	2 194	2 173	2 253
EQUITY AND LIABILITIES							
Equity	175	203	499	521	636	694	755
Total equity	175	203	499	521	636	694	755
Long-term interest-bearing liabilities	788	883	912	0	967	867	867
Other long-term liabilities	72	70	80	87	137	137	137
Total long-term liabilities	860	953	992	87	1 104	1 004	1 004
Short-term interest-bearing liabilities	37	0	47	1 019	130	130	130
Trade payables	102	57	130	228	192	233	241
Other current liabilities	27	45	84	119	133	113	123
Total current liabilities	166	102	261	1 365	454	476	494
TOTAL EQUITY AND LIABILITIES	1 201	1 257	1 753	1 973	2 194	2 173	2 253

Source: Advanced Soltech Sweden AB, EPB

Growth and margins

	2019	2020	2021	2022	2023e	2024e	2025e
Revenue growth	-	32%	11%	33%	11%	21%	3%
EBITDA growth, adjusted	-	28%	-4%	35%	8%	28%	3%
EBIT growth, adjusted	-	25%	-20%	31%	7%	44%	3%
EPS growth, adjusted	-	N.m.	N.m.	N.m.	N.m.	N.m.	6%
Gross margin	>100%	>100%	>100%	>100%	>100%	>100%	>100%
EBITDA margin	>100%	>100%	94,4%	95,0%	88,4%	>100%	>100%
EBITDA margin, adjusted	>100%	>100%	94,4%	95,0%	92,5%	>100%	>100%
EBIT margin	>100%	88,2%	51,7%	50,6%	44,6%	61,0%	59,9%
EBIT margin, adjusted	>100%	88,2%	51,7%	50,6%	48,8%	61,0%	59,9%
Profit margin, adjusted	Neg.	Neg.	13,8%	Neg.	Neg.	29,0%	29,3%

Source: Advanced Soltech Sweden AB, EPB

Profitability

	2019	2020	2021	2022	2023e	2024e	2025e
ROE, adjusted	Neg.	Neg.	5%	Neg.	Neg.	9%	8%
ROCE, adjusted	Neg.	7%	12%	7%	5%	7%	7%
ROIC, adjusted	Neg.	8%	5%	6%	5%	7%	7%

Source: Advanced Soltech Sweden AB, EPB

Capital efficiency

	2019	2020	2021	2022	2023e	2024e	2025e
Trade receivables / total revenues	22%	17%	24%	18%	18%	18%	18%
Total current liabilities / total expenses	>100%	>100%	>100%	>100%	>100%	>100%	>100%
Working capital / total revenues	-76%	-26%	-87%	-124%	-112%	-97%	-99%
Capital turnover rate	0,1x	0,1x	0,1x	0,1x	0,1x	0,2x	0,2x

Source: Advanced Soltech Sweden AB, EPB

Financial position

	2019	2020	2021	2022	2023e	2024e	2025e
Net debt	776	809	798	958	1 088	975	975
Equity asset ratio	15%	16%	28%	26%	29%	32%	34%
Net debt/equity ratio	4,4x	4,0x	1,6x	1,8x	1,7x	1,4x	1,3x
Net debt / EBITDA	8,6x	7,0x	7,2x	6,4x	7,1x	4,7x	4,6x

Source: Advanced Soltech Sweden AB, EPB

Share data

	2019	2020	2021	2022	2023e	2024e	2025e
EPS	-2 795	-444	0,82	-0,72	-1,22	0,98	1,04
EPS, adjusted	-2 795	-444	0,82	-0,72	-1,07	0,98	1,04
FCF per share	-92 807	-776	-9,86	-3,17	-6,06	1,90	0,00
Dividend per share	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Equity per share	34 976	470	12,8	12,5	10,7	11,7	12,8
Number of shares at year-end, m	0,01	0,43	39,1	41,6	59,1	59,1	59,1
Number of shares after dilution, average	0,01	0,22	19,8	40,3	50,4	59,1	59,1

Source: Advanced Soltech Sweden AB, EPB

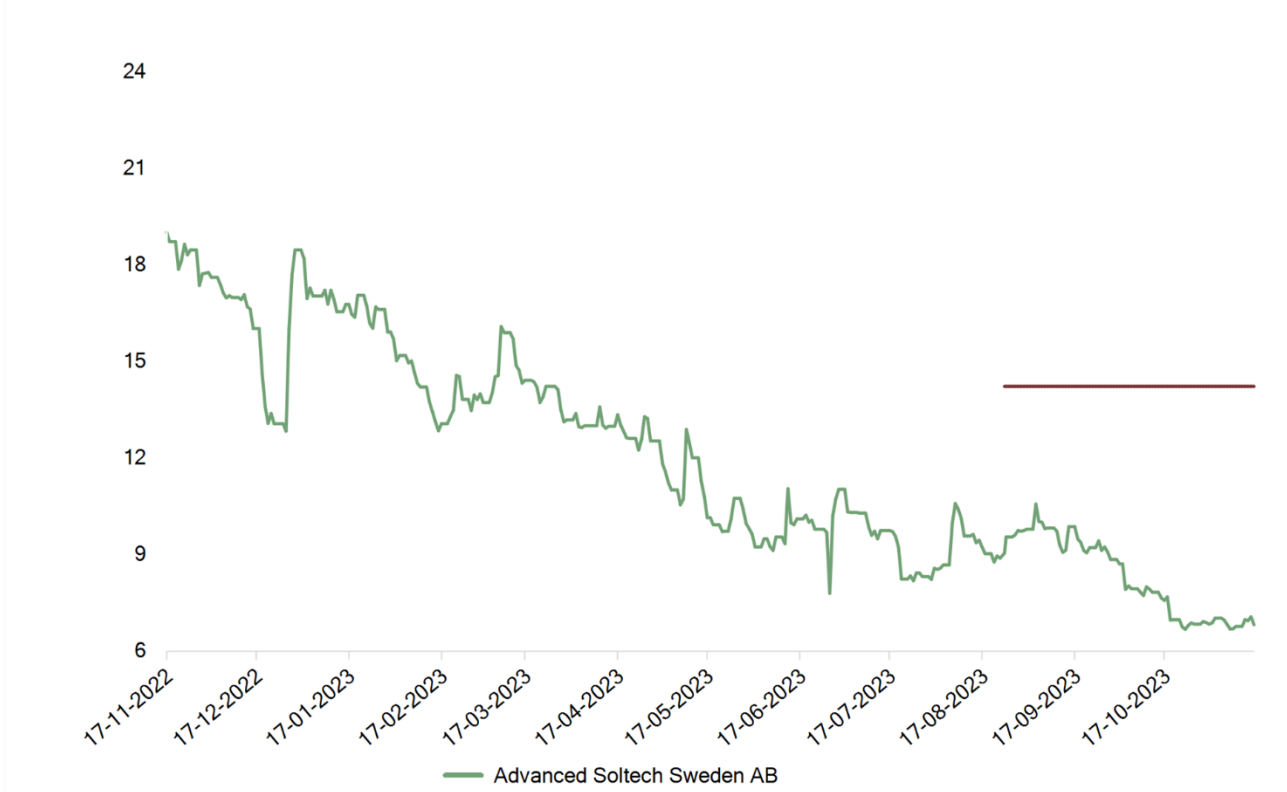
Valuation

	2019	2020	2021	2022	2023e	2024e	2025e
P/E, adjusted	Neg.	Neg.	56,3x	Neg.	Neg.	7,2x	6,8x
Price/book value	0,0x	0,0x	3,6x	1,5x	0,7x	0,6x	0,6x
P/FCF	Neg.	Neg.	Neg.	Neg.	Neg.	3,7x	Neg.
FCF yield	Neg.	Neg.	Neg.	Neg.	Neg.	27%	Neg.
Dividend yield	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Payout ratio, adjusted	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
EV/Sales	Neg.	Neg.	16,9x	8,3x	6,4x	5,2x	5,1x
EV/EBITDA, adjusted	Neg.	Neg.	23,4x	11,4x	8,9x	7,0x	6,8x
EV/EBIT, adjusted	Neg.	Neg.	42,7x	21,4x	16,9x	11,8x	11,4x
EV	Neg.	Neg.	2 592	1 701	1 435	1 435	1 435
Share price	-	-	46,3	18,7	7,1	7,1	7,1

Source: Advanced Soltech Sweden AB, EPB

Share price and average fair value

Advanced Soltech Sweden AB (ASAB SS EQUITY)



Source: EPB, IDC

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Erik Penser Bank (publ.)
Apelbergsgatan 27 Box 7405 103 91 STOCKHOLM
tel: +46 8 463 80 00 fax: +46 8 678 80 33 www.penser.se