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Energy | Sweden | 21 February 2024

Gigasun AB

Stable quarter with capital structure review

Operations stable but financing challenges persist

Gigasun reported an operationally stable Q4(23) report, with rolling 12M sales picking up after the relatively weaker Q3(23). Revenues from energy sales were 25% higher despite some currency headwinds (-2% Y/Y). This can be explained to some extent by energy purchased for resale. Revenues per KWh produced (adjusted for currency) were stable Q/Q. EBIT of SEK12m was stronger Y/Y, although on a rolling 12M basis it did not reach the some SEK80m level that the company had recently been reporting. Gigasun has flagged a strategic review of its capital structure as its balance sheet still hinders steadier cash flow and growth.

Forecasts down owing to postponed introduction of emission rights and reduced net financial items

We make only marginal changes to our electricity sales estimates, largely prompted by the strengthening of the SEK against the RMB. We postpone the revenues from the introduction of emission rights to H2(24) and trim our forecasts for net financial items, which has a sizeable impact on EPS owing to the higher interest rates than previously anticipated. Our 2025 forecasts remain conservative, based on marginal capital raises in the debt market. Should the company succeed in lifting its capital base, its growth prospects would increase significantly. Availability of capital remains the largest barrier to growth in the capital-intensive power generation industry. The market for CCERs (China certified emission reductions) restarted in January, according to the company, but no new regulatory framework is yet in place. We still assume an emission rights system will be established in China in 2024, but now from H2, which increases Other income from the historical level of SEK40–50m a year to SEK74m per year in our 2025–26 forecasts.

Lower fair value due to more shares and reduced estimates

We assign a new fair value of SEK9.5–12.5 (14.0–15.5). Our fair value is based on the value creation for a number of European power producers, by combining EBIT growth and EBIT margins for 2023–25e, which we then compare with EV/EBIT for 2024e. A regression analysis suggests EV/EBIT of 18x for Gigasun. As the company is smaller and also has an unusual exposure (100% of revenues from China), we apply a discount of 25% to the calculated value in our base scenario.

Change in estimates

	24e	25e	26e
Total revenues	-6,5%	-1,2%	-
EBIT, adj.	-14,7%	-2,6%	-
EPS, adj.	-45,6%	23,6%	-

Upcoming events

Q1 - report	16 May 2024
Q2 - report	26 August 2024

Company facts (SEKm)

Number of shares	57m
Market capitalisation	337
Net debt	1,118
EV	1,455
Free float	80%
Daily trading volume, average	17k
Bloomberg Ticker	GIGA SS Equity

Analyst

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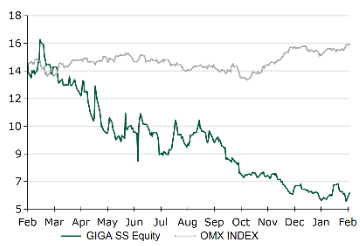
Forecasts (SEKm)

	2023	2024e	2025e	2026e
Total revenues	219	256	280	290
Revenue growth	7%	17%	9%	4%
EBITDA, adj.	154	188	208	212
EBIT, adj.	79	104	122	124
EPS, adj.	-1.5	0.5	0.8	0.8
EPS growth, adj.	N.m.	N.m.	49%	5%
BV/share	11.7	10.1	10.9	11.8
EBIT margin	40.5%	53.1%	59.2%	57.5%
ROE, adj.	Neg.	4.9%	7.5%	7.3%
ROCE, adj.	5.1%	6.4%	7.4%	7.3%
EV/Sales	5.9x	5.7x	5.2x	5.0x
EV/EBITDA	8.4x	7.7x	7.0x	6.9x
EV/EBIT	16.4x	14.0x	11.9x	11.7x
P/E, adj.	-4.0x	11.1x	7.4x	7.1x
FCF yield	-82%	-5%	31%	15%
Net debt / EBITDA	6.9x	5.5x	4.4x	4.1x

Value and risk

Fair value	**SEK 9.5 - 12.5**
Share price	SEK 5.9
Risk level	High

Price performance 12 months



Conflicts of interest

	Yes	No
Liquidity provider	✓	
Certified adviser		✓
Transactions 12m		✓

Investment case

Appealing exposure to renewable energy generation

China is undergoing a shift towards renewable energy sources, with the aim of reducing greenhouse gases and decrease its dependency on fossil fuels, and solar power is a central component of this. 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 Gigasun offers a unique exposure to this.

Robust market position offers 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, compared with 252 MW as of the end of H1(23).

Stable revenues, low risk on the cost side, and high barriers to entry

Owing to price controls, the electricity price – which steers Gigasun'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 into the long-term cash flow generation.

We consider our estimates conservative. This should, given its new financial structure, enable Gigasun to find local financing at attractive levels, significantly boosting its 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

Gigasun 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.

Gigasun 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. Its headquarters are in Stockholm, but it operates exclusively in China.

Valuation

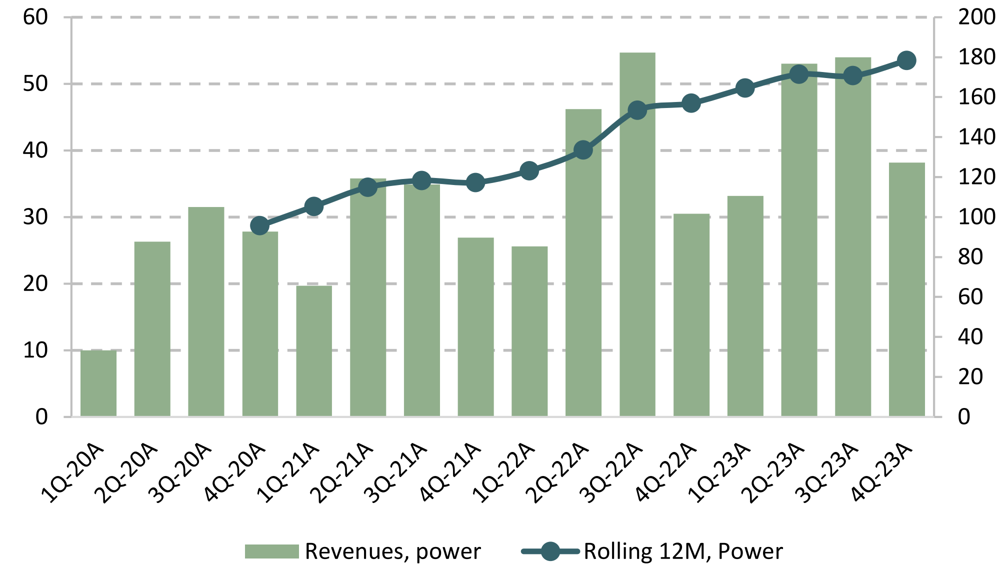
We value Gigasun using a relative valuation model. Our relative valuation compares Gigasun with a group of international power producers. Its business model is capital intensive, providing high margins, and we see Gigasun as a power producer rather than a photovoltaic systems installer.

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 high. We arrive at a justified multiple of 18x and then apply a 25% discount to this to account for the financing situation and Gigasun's dependence on a single market.

Brief overview of the quarter

Sales-wise, Gigasun reported a stable Q4(23) report, with rolling 12M sales picking up after the relatively weaker Q3(23).

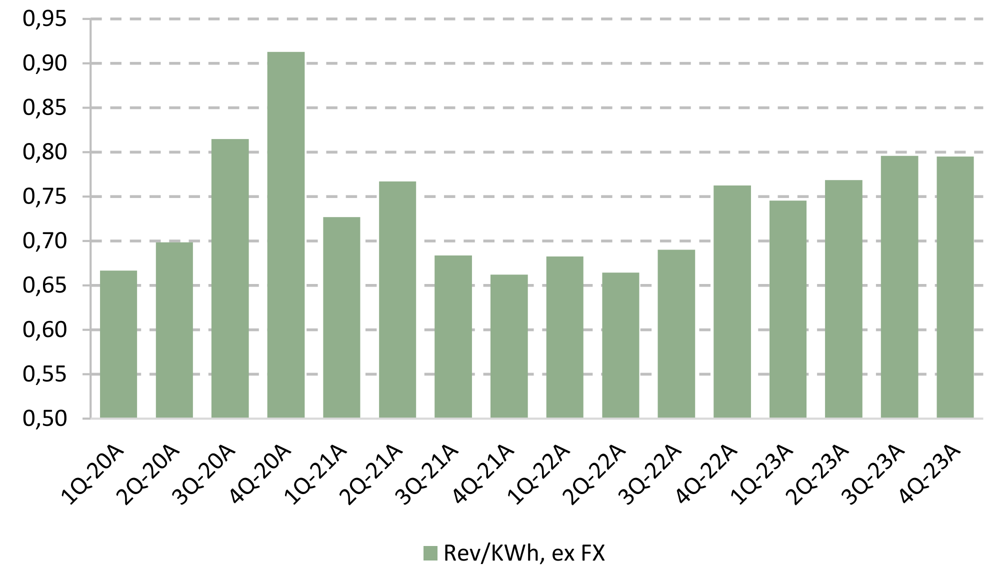
Exhibit 1: Electricity sales



Source: Gigasun, Penser by Carnegie

Revenues from energy sales were 25% higher despite some currency headwinds (-2% Y/Y). This can be explained to some extent by energy purchased for resale. Revenues for KWh produced were unchanged Q/Q, and are now sitting at a higher level than in 2021 and 2022.

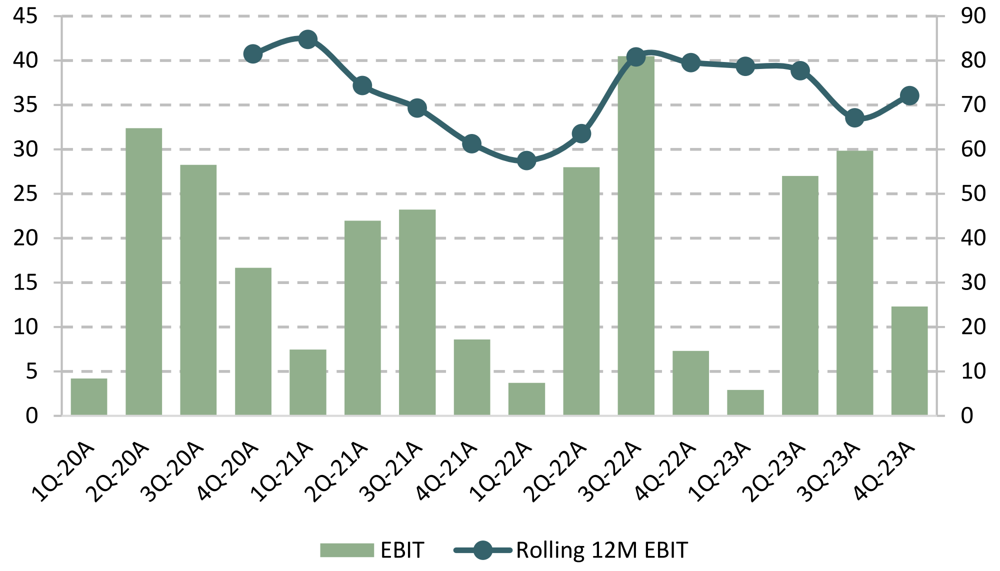
Exhibit 2: Revenues per KWh produced



Source: Gigasun, Penser by Carnegie

EBIT of SEK12m was stronger Y/Y, although on a rolling 12M basis it did not reach the same level that the company had recently been reporting.

Exhibit 3: EBIT, quarterly and rolling 12M



Source: Gigasun, Penser by Carnegie

Gigasun has flagged a strategic review of its capital structure as its balance sheet still hinders steadier cash flow and growth.

Valuation and fair value

We assign a new fair value of SEK9.5–12.5 per share (14.0–15.5).

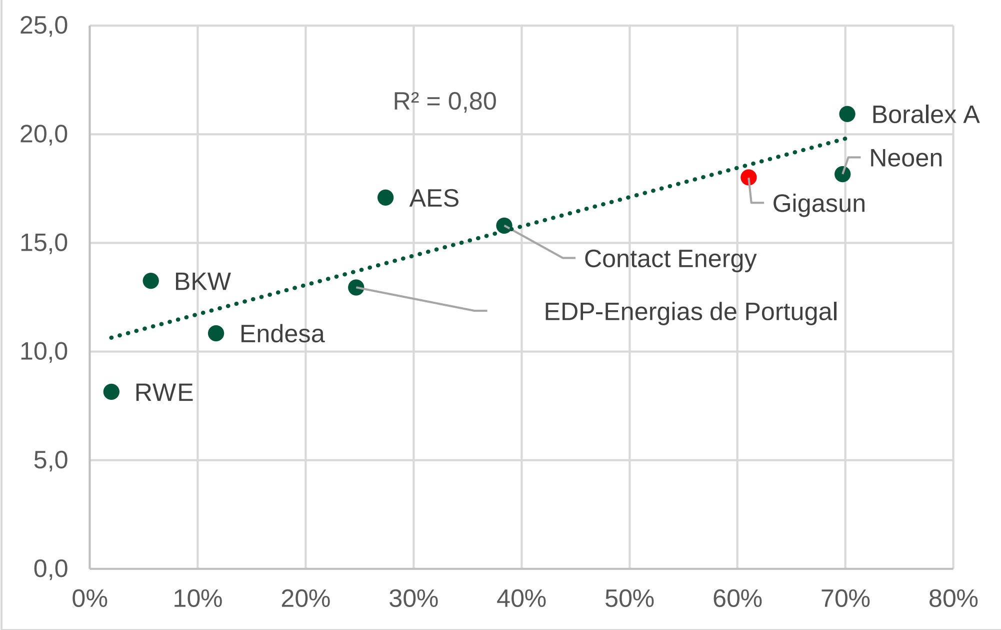
Exhibit 4: Fair value calculation

EBIT 2024e, SEKm	104
EV/EBIT multiple	18
Enterprise value 2024e, SEKm	1872
Net debt 2024e, SEKm	1027
Equity valeue 2024e, SEKm	845
Number of shares, m	59,1
Value per share, SEK	14,3
Discount	25%
Basis for fair value, SEK / share	**10,7**

Source: Gigasun, Penser by Carnegie, FactSet

Our fair value is based on the value creation for a number of European power producers, by combining EBIT growth and EBIT margins for 2023–25e, which we then compare with EV/EBIT for 2024e. A regression analysis suggests EV/EBIT of 18x for Gigasun.

Exhibit 5: Value creation



Source: FactSet, Penser by Carnegie

As the company is smaller and also has an unusual exposure (100% of revenues from China), we apply a discount of 25% to the calculated value in our base-case scenario.

Exhibit 6: Sensitivity analysis – fair value

	Discount		
EV/EBIT	**5,0%**	**25,0%**	**45,0%**
14	6,9	5,4	4,0
16	10,2	8,1	5,9
18	13,6	10,7	7,9
20	16,9	13,4	9,8
22	20,3	16,0	11,7

Source: Gigasun, Penser by Carnegie, FactSet

Income statement

	2019	2020	2021	2022	2023	2024e	2025e	2026e
Net sales	**60**	**86**	**117**	**157**	**178**	**196**	**206**	**216**
Other operating income	45	52	36	47	41	60	74	74
Total revenues	**105**	**139**	**154**	**204**	**219**	**256**	**280**	**290**
Other operating expenses	-15	-24	-43	-55	-65	-68	-72	-78
EBITDA	**90**	**115**	**111**	**149**	**147**	**188**	**208**	**212**
Items affecting comparability	0	0	0	0	-7	0	0	0
EBITDA, adjusted	**90**	**115**	**111**	**149**	**154**	**188**	**208**	**212**
Depreciation	-27	-37	-48	-67	-72	-81	-83	-85
EBITA, adjusted	**63**	**78**	**63**	**82**	**82**	**107**	**125**	**127**
Amortisation	-2	-2	-2	-3	-3	-3	-3	-3
EBIT	**61**	**76**	**61**	**79**	**72**	**104**	**122**	**124**
EBIT, adjusted	**61**	**76**	**61**	**79**	**79**	**104**	**122**	**124**
Net financial items	-79	-163	-37	-114	-150	-75	-75	-75
Profit before tax	**-18**	**-87**	**24**	**-35**	**-78**	**29**	**47**	**49**
Profit before tax, adjusted	**-18**	**-87**	**24**	**-35**	**-71**	**29**	**47**	**49**
Taxes	4	-10	-7	6	2	0	0	0
Minority interest	-1	-1	0	0	0	0	0	0
Net income	**-15**	**-98**	**16**	**-29**	**-76**	**29**	**47**	**49**
Net income, adjusted	**-15**	**-98**	**16**	**-29**	**-69**	**29**	**47**	**49**
Sales growth	*-*	*32%*	*11%*	*33%*	*7%*	*17%*	*9%*	*4%*
Gross margin	*>100%*	*>100%*	*>100%*	*>100%*	*>100%*	*>100%*	*>100%*	*>100%*
EBIT margin, adjusted	*>100%*	*88.2%*	*51.7%*	*50.6%*	*44.5%*	*53.1%*	*59.2%*	*57.5%*
EPS, adjusted	*-3,054*	*-451*	*0.81*	*-0.73*	*-1.52*	*0.53*	*0.79*	*0.83*
EPS growth, adjusted	*-*	*N.m.*	*N.m.*	*N.m.*	*N.m.*	*N.m.*	*49%*	*5%*

Source: Gigasun AB, Carnegie

Cash flow statement

	2019	2020	2021	2022	2023	2024e	2025e	2026e
EBIT	61	76	61	79	72	104	122	124
Other cash flow items	-32	-73	-56	-34	-61	9	11	13
Changes in working capital	16	-38	99	131	18	4	25	19
Cash flow from operating activities	**45**	**-34**	**104**	**177**	**29**	**117**	**158**	**157**
Investments in fixed assets	-433	-136	-296	-359	-248	-134	-49	-105
Investments in intangible fixed assets	-47	0	0	0	0	0	0	0
Other cash flows from investments	-28	1	-3	55	-9	0	0	0
Cash flow from investments	**-509**	**-135**	**-299**	**-305**	**-258**	**-134**	**-49**	**-105**
Free cash flow	**-464**	**-169**	**-195**	**-128**	**-228**	**-16**	**110**	**52**
New share issue / repurchase	0	146	227	17	170	0	0	0
Changes in liabilities	484	49	47	6	23	0	0	0
Other items	0	0	-1	-1	-6	0	0	0
Cash flow from financing	**484**	**195**	**273**	**21**	**187**	**0**	**0**	**0**
Cash flow	**20**	**26**	**78**	**-106**	**-41**	**-16**	**110**	**52**
Net debt	**776**	**809**	**798**	**958**	**1,010**	**1,027**	**917**	**865**

Source: Gigasun AB, Carnegie

Balance sheet

	2019	2020	2021	2022	2023	2024e	2025e	2026e
ASSETS								
Other intangible assets	47	42	45	45	40	37	35	32
Tangible fixed assets	955	980	1,374	1,724	1,789	1,842	1,807	1,826
Financial assets	91	88	90	43	53	53	53	53
Other fixed assets	9	8	1	6	17	17	17	17
Total fixed assets	**1,102**	**1,118**	**1,511**	**1,819**	**1,899**	**1,949**	**1,911**	**1,928**
Accounts receivable	23	24	36	36	41	49	53	55
Other current assets	26	42	45	57	75	15	15	15
Cash and cash equivalents	50	73	161	61	19	3	112	164
Total current assets	**99**	**139**	**242**	**155**	**135**	**66**	**181**	**235**
TOTAL ASSETS	**1,201**	**1,257**	**1,753**	**1,973**	**2,034**	**2,015**	**2,092**	**2,162**
EQUITY AND LIABILITIES								
Equity	175	203	499	521	570	599	646	695
Total equity	**175**	**203**	**499**	**521**	**570**	**599**	**646**	**695**
Long-term interest-bearing liabilities	788	883	912	0	800	800	800	800
Other long-term liabilities	72	70	80	87	21	21	21	21
Total long-term liabilities	**860**	**953**	**992**	**87**	**821**	**821**	**821**	**821**
Short-term interest-bearing liabilities	37	0	47	1,019	229	229	229	229
Accounts payable	102	57	130	228	247	256	280	290
Other current liabilities	27	45	84	119	167	110	115	126
Total current liabilities	**166**	**102**	**261**	**1,365**	**643**	**595**	**625**	**646**
TOTAL EQUITY AND LIABILITIES	**1,201**	**1,257**	**1,753**	**1,973**	**2,034**	**2,015**	**2,092**	**2,162**

Source: Gigasun AB, Carnegie

Growth and margins

	2019	2020	2021	2022	2023	2024e	2025e	2026e
Revenue growth	-	32%	11%	33%	7%	17%	9%	4%
EBITDA growth, adjusted	-	28%	-4%	35%	3%	22%	11%	2%
EBIT growth, adjusted	-	25%	-20%	31%	0%	31%	17%	2%
EPS growth, adjusted	-	N.m.	N.m.	N.m.	N.m.	N.m.	49%	5%
Gross margin	>100%	>100%	>100%	>100%	>100%	>100%	>100%	>100%
EBITDA margin	>100%	>100%	94.4%	95.0%	82.3%	95.9%	>100%	98.2%
EBITDA margin, adjusted	>100%	>100%	94.4%	95.0%	86.3%	95.9%	>100%	98.2%
EBIT margin	>100%	88.2%	51.7%	50.6%	40.5%	53.1%	59.2%	57.5%
EBIT margin, adjusted	>100%	88.2%	51.7%	50.6%	44.5%	53.1%	59.2%	57.5%
Profit margin, adjusted	Neg.	Neg.	13.7%	Neg.	Neg.	14.7%	22.7%	22.7%

Source: Gigasun AB, Carnegie

Return

	2019	2020	2021	2022	2023	2024e	2025e	2026e
ROE, adjusted	Neg.	Neg.	5%	Neg.	Neg.	5%	8%	7%
ROCE, adjusted	Neg.	7%	12%	7%	5%	6%	7%	7%
ROIC, adjusted	Neg.	8%	5%	6%	5%	6%	8%	8%

Source: Gigasun AB, Carnegie

Capital efficiency

	2019	2020	2021	2022	2023	2024e	2025e	2026e
Accounts receivable / total revenue	22%	17%	24%	18%	19%	19%	19%	19%
Total short-term liabilities / total costs	>100%	>100%	>100%	>100%	>100%	>100%	>100%	>100%
Working capital / total revenue	-76%	-26%	-87%	-124%	-136%	-118%	-117%	-119%

Source: Gigasun AB, Carnegie

Financial position

	2019	2020	2021	2022	2023	2024e	2025e	2026e
Net debt	776	809	798	958	1,010	1,027	917	865
Equity ratio	15%	16%	28%	26%	28%	30%	31%	32%
Net debt / equity	4.4x	4.0x	1.6x	1.8x	1.8x	1.7x	1.4x	1.2x
Net debt / EBITDA	8.6x	7.0x	7.2x	6.4x	6.9x	5.5x	4.4x	4.1x

Source: Gigasun AB, Carnegie

Per share data

	2019	2020	2021	2022	2023	2024e	2025e	2026e
EPS	-3,054	-451	0.81	-0.73	-1.68	0.53	0.79	0.83
EPS, adjusted	-3,054	-451	0.81	-0.73	-1.52	0.53	0.79	0.83
FCF per share	-92,807	-776	-9.86	-3.17	-5.05	-0.31	1.86	0.88
Book value per share	34,976	470	12.8	12.5	11.7	10.1	10.9	11.8
Number of shares, m	0.01	0.43	39.1	41.6	48.9	59.1	59.1	59.1
Number of shares after dilution, average	0.01	0.22	19.8	40.3	45.2	54.0	59.1	59.1

Source: Gigasun AB, Carnegie

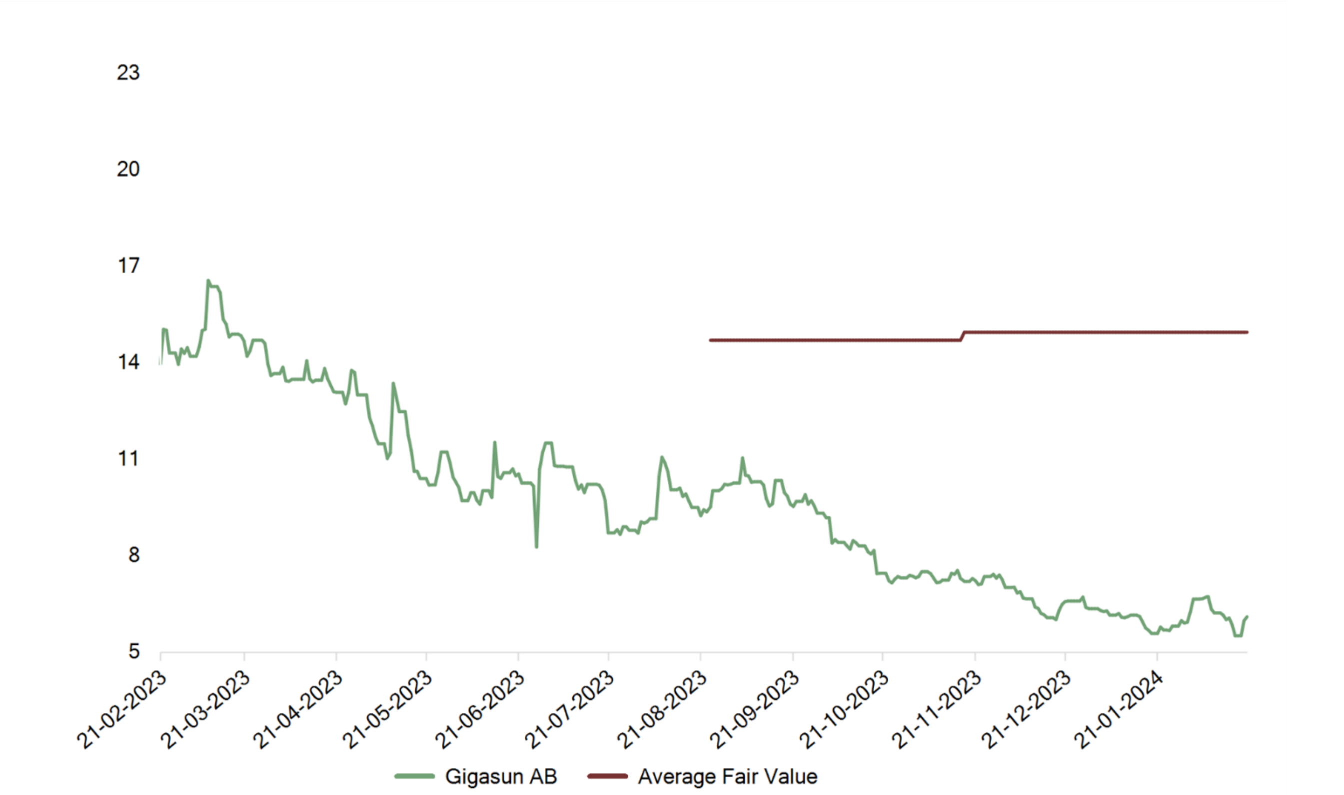
Valuation

	2019	2020	2021	2022	2023	2024e	2025e	2026e
P/E, adjusted	Neg.	Neg.	57.0x	Neg.	Neg.	11.1x	7.4x	7.1x
P/BV	0.0x	0.0x	3.6x	1.5x	0.5x	0.6x	0.5x	0.5x
P/FCF	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	3.2x	6.7x
FCF yield	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	31%	15%
Dividend yield	0.0%	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%	0.0%
EV/Sales	Neg.	Neg.	16.9x	8.3x	5.9x	5.7x	5.2x	5.0x
EV/EBITDA, adjusted	Neg.	Neg.	23.4x	11.4x	8.4x	7.7x	7.0x	6.9x
EV/EBIT, adjusted	Neg.	Neg.	42.7x	21.4x	16.4x	14.0x	11.9x	11.7x
EV	Neg.	Neg.	2,592	1,701	1,299	1,455	1,455	1,455
Share price, year end	-	-	46.3	18.7	6.2	5.9	5.9	5.9

Source: Gigasun AB, Carnegie

Share price and average fair value chart

Gigasun AB (GIGA SS Equity)



Source: Penser by Carnegie, IDC

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