

Semiconductors & Semiconductor Equipment | Sweden | 23 February 2024

Production expansion on the cards

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Investment case

We believe the demand for renewable energy will remain robust owing to higher electricity prices in Europe versus historically – with the exception of the outlying year of 2022 – and that this will spur financial incentives, beyond the environmental reasons, to invest in solar power. Unlike wind power and other forms of renewable energy, solar power is small scale, has short lead times thanks to a simple authorisation process, and the energy is produced close to where it is consumed, which eliminates the need for large power grid investments. A solar power installation lifts the value of a property, offering a solid incentive for the property owner to invest in solar power. Although Sweden is the company's domestic market, we see the greatest potential lying in other European markets. There is a clearly better relationship in Europe between the opportunity cost for purchasing energy and the benefit that a photovoltaic system can produce in the form of self-consumed energy or external sales to the power grid.

In principle, Midsummer differentiates itself from all other photovoltaic companies in the OECD region by being a product supplier rather than an installer, like the other companies in this industry. It produces thin-film solar cells, which are markedly different from traditional solar panels in their production and transport. Midsummer produces locally and with limited energy and material consumption, through which it has secured a market-leading position in terms of carbon footprint, with a lower footprint than wind and hydropower, and, notably, than traditional solar panels. We expect thin-film solar cells to develop strongly versus traditional panels. Traditional panels have lost their great competitive advantage: a fully globalised world with a massive dependence on Chinese exports and lower fossil fuel prices, which have been the key production factors with traditional panels.

Midsummer's most important end-market at present is flat roofs for commercial properties. External parties forecast 15 GW annually in installed capacity, which is the equivalent of a SEK 130–150bn TAM per year, plus a replacement market of 6 GW, or SEK 40–50bn, where old roofs are exchanged for new ones containing photovoltaic technology. The company operates with the part of the market that cannot withstand the weight of traditional panels, or where such panels are not feasible for various reasons, and where price competition with traditional panels is thus limited. Based on these external forecasts for the total photovoltaic market, we see barely measurable market share for Midsummer, despite the higher sales forecasts than historically.

The brand-new factory in Italy will increase its production capacity from today's 1–2 MW to 52 MW, a sizeable expansion of its operations.

Company profile

Midsummer is a European solar cell producer. The technology is built around a proprietary production process that effectively means different semiconductor materials are deposited on a carrier, e.g., a steel substrate. Midsummer's cutting-edge technology in the thin-film solar cell niche is based on the special CIGS technique, comprising copper, indium, gallium, and selenium.

It sells its products under the Slim and Wave brand names, offering lighter construction to blend in with the existing tiled roof or to replace a traditional folded sheet metal roof. These products appeal to many customers who do not favour the visible changes that a traditional photovoltaic installation brings, and mainly target the private market. Its Bold brand is the most popular product on the market at present. The lighter construction allows for installation on weaker flat roof structures, mainly on commercial properties that cannot bear the weight of a traditional solar cell installation. In general, it sells all its products at a clear premium to traditional panels, although the price to customers differs only minimally because of the simpler installation and lower materials costs beyond the cost for the panels themselves versus installing traditional panels.

Valuation

We value Midsummer using an EV/S multiple of 3x based on 2024e sales, discounted to present value with a WACC of 25%. The EV/S multiple is line with larger companies listed in the US. Today, Midsummer is a small, local Swedish player, but we believe its expansion in Europe will mean it is considered a large, regional actor and thus be valued in line with similar companies, even if its business model differs considerably from that of its peer group.

Fair value calculation – upper end of the range

Sales 2024e, SEKm	350
EV/S multiple	3
Enterprise value 2024e, SEKm	1 050
Net debt 2024e, SEKm	-194
Equity value 2024e, SEKm	856
WACC	25,0%
Value, SEKm	685
Shares, m	207,1
Value per share	3,3

Source: Midsummer, FactSet, Penser by Carnegie

Fair value calculation – lower end of the range

Sales 2024e, SEKm	280
EV/S multiple	3
Enterprise value 2024e, SEKm	840
Net debt 2024e, SEKm	-194
Equity value 2024e, SEKm	646
WACC	25,0%
Value, SEKm	517
Shares, m	207,1
Value per share	2,5

Source: Midsummer, FactSet, Penser by Carnegie

Sensitivity analysis – fair value

EV/S	Difference to our sales estimate		
	-20,0%	0,0%	20,0%
1,5	0,9	1,3	1,7
2,5	2,0	2,6	3,3
3,0	2,5	3,3	4,1
3,5	3,0	4,0	4,9
4,5	4,1	5,3	6,6

Source: Midsummer, FactSet, Penser by Carnegie

Income statement								
	2019	2020	2021	2022	2023	2024e	2025e	2026e
Net sales	184	72	94	53	50	350	578	606
Other operating income	17	47	42	26	36	36	35	35
Total revenues	201	119	136	79	86	386	613	641
Cost of goods sold	-107	-41	-92	-100	-35	-280	-462	-467
Gross profit	94	78	44	-21	51	106	151	175
Other operating expenses	-85	-128	-117	-143	-182	-148	-148	-147
EBITDA	9	-50	-73	-67	-131	107	32	28
Items affecting comparability	0	0	0	97	0	150	29	0
EBITDA, adjusted	9	-50	-73	-164	-131	-42	3	28
Depreciation	-32	-24	-38	-34	-70	-40	-40	-40
EBITA, adjusted	-23	-74	-111	-198	-201	-82	-37	-12
EBIT	-23	-74	-111	-101	-201	67	-8	-12
EBIT, adjusted	-23	-74	-111	-198	-201	-82	-37	-12
Net financial items	-12	-18	-19	4	-24	-3	-3	-3
Profit before tax	-35	-92	-130	-97	-225	64	-12	-15
Profit before tax, adjusted	-35	-92	-130	-194	-225	-86	-40	-15
Taxes	-5	0	1	1	3	0	0	0
Net income	-40	-92	-130	-96	-222	64	-12	-15
Net income, adjusted	-40	-92	-130	-193	-222	-86	-40	-15
Sales growth	-	-41%	14%	-42%	9%	>100%	59%	5%
Gross margin	50.9%	>100%	46.9%	Neg.	>100%	30.2%	26.1%	28.8%
EBIT margin, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
EPS, adjusted	-1.30	-1.99	-2.18	-2.84	-1.98	-0.41	-0.20	-0.07
EPS growth, adjusted	-	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.

Source: Midsummer, Carnegie

Cash flow statement								
	2019	2020	2021	2022	2023	2024e	2025e	2026e
EBIT	-23	-74	-111	-101	-201	67	-8	-12
Other cash flow items	19	2	20	-32	28	37	37	37
Changes in working capital	-69	-7	28	24	102	-82	19	41
Cash flow from operating activities	-73	-80	-63	-109	-71	22	47	66
Investments in fixed assets	-31	-29	-90	-42	-44	-35	-35	-15
Investments in intangible fixed assets	-14	-24	-25	-20	-20	-20	-20	-10
Cash flow from investments	-45	-53	-115	-62	-64	-55	-55	-25
Free cash flow	-118	-133	-179	-171	-135	-33	-8	41
New share issue / repurchase	0	248	126	0	168	55	0	0
Other items	176	-9	-7	13	-15	0	0	0
Cash flow from financing	176	239	119	13	153	55	0	0
Cash flow	58	106	-60	-158	18	22	-8	41
Net debt	111	-2	56	243	216	194	202	161

Source: Midsummer, Carnegie

Balance sheet								
	2019	2020	2021	2022	2023	2024e	2025e	2026e
ASSETS								
Other intangible assets	31	45	53	54	53	53	53	43
Tangible fixed assets	36	67	142	137	176	191	206	201
Other fixed assets	25	15	12	21	19	19	19	19
Total fixed assets	93	127	208	213	248	263	278	263
Inventories	24	27	30	20	31	127	177	186
Accounts receivable	6	23	23	3	11	54	88	93
Other current assets	118	126	71	223	207	207	207	207
Cash and cash equivalents	111	218	159	2	21	42	34	75
Total current assets	259	393	283	249	270	430	507	561
TOTAL ASSETS	352	520	491	461	518	693	785	823
EQUITY AND LIABILITIES								
Equity	100	256	253	175	195	313	302	287
Total equity	100	256	253	175	195	313	302	287
Long-term interest-bearing liabilities	214	209	208	10	210	210	210	210
Long-term lease liabilities	0	0	0	15	10	10	10	10
Other long-term liabilities	1	0	0	2	3	3	3	3
Total long-term liabilities	215	209	208	27	223	223	223	223
Short-term interest-bearing liabilities	8	6	8	215	9	9	9	9
Accounts payable	16	34	10	21	16	127	171	179
Short-term lease liabilities	-	-	-	5	8	8	8	8
Other current liabilities	12	14	13	18	68	14	72	118
Total current liabilities	36	55	30	259	100	157	260	314
TOTAL EQUITY AND LIABILITIES	352	520	491	461	518	693	785	823

Source: Midsummer, Carnegie

Growth and margins								
	2019	2020	2021	2022	2023	2024e	2025e	2026e
Revenue growth	-	-41%	14%	-42%	9%	>100%	59%	5%
EBITDA growth, adjusted	-	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	>100%
EBIT growth, adjusted	-	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.
EPS growth, adjusted	-	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.
Gross margin	50.9%	>100%	46.9%	Neg.	>100%	30.2%	26.1%	28.8%
EBITDA margin	4.9%	Neg.	Neg.	Neg.	Neg.	30.6%	5.5%	4.6%
EBITDA margin, adjusted	4.9%	Neg.	Neg.	Neg.	Neg.	Neg.	0.5%	4.6%
EBIT margin	Neg.	Neg.	Neg.	Neg.	Neg.	19.1%	Neg.	Neg.
EBIT margin, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
Profit margin, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.

Source: Midsummer, Carnegie

Return								
	2019	2020	2021	2022	2023	2024e	2025e	2026e
ROE, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
ROCE, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
ROIC, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.

Source: Midsummer, Carnegie

Capital efficiency								
	2019	2020	2021	2022	2023	2024e	2025e	2026e
Inventory / total revenues	12%	22%	22%	26%	36%	33%	29%	29%
Accounts receivable / total revenue	3%	19%	17%	4%	13%	14%	14%	14%
Accounts payable / COGS	15%	83%	11%	21%	45%	45%	37%	38%
Total short-term liabilities / total costs	19%	33%	15%	>100%	46%	56%	45%	51%
Working capital / total revenues	60%	>100%	74%	>100%	>100%	64%	37%	29%
Capital turnover rate	0.6x	0.3x	0.3x	0.2x	0.2x	0.7x	1.1x	1.2x

Source: Midsummer, Carnegie

Financial position								
	2019	2020	2021	2022	2023	2024e	2025e	2026e
Net debt	111	-2	56	243	216	194	202	161
Equity ratio	29%	49%	51%	38%	38%	45%	38%	35%
Net debt / equity	1.1x	0.0x	0.2x	1.4x	1.1x	0.6x	0.7x	0.6x
Net debt / EBITDA	12.3x	0.0x	-0.8x	-3.6x	-1.6x	1.8x	6.4x	5.8x

Source: Midsummer, Carnegie

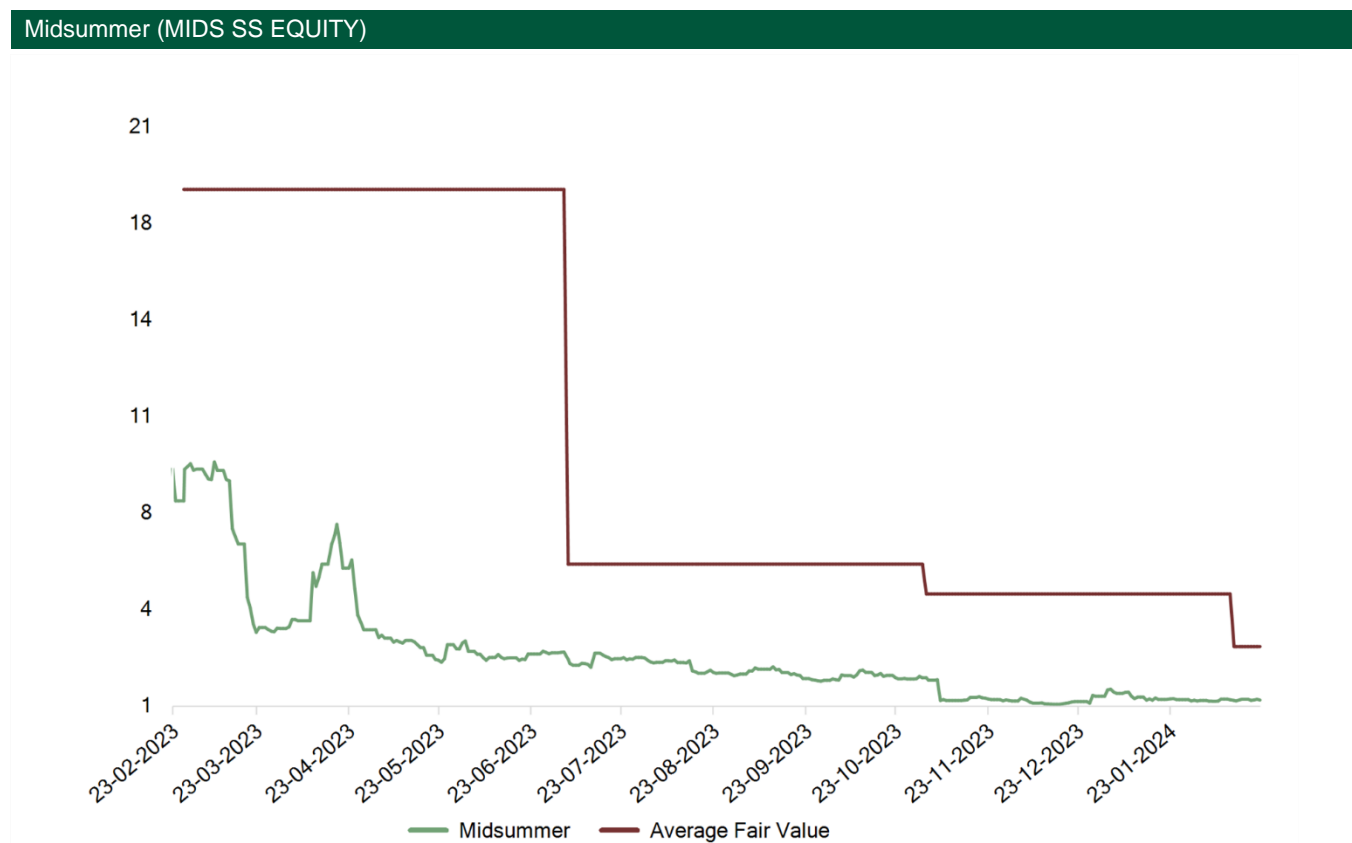
Per share data								
	2019	2020	2021	2022	2023	2024e	2025e	2026e
EPS	-1.30	-1.99	-2.18	-1.42	-1.98	0.31	-0.06	-0.07
EPS, adjusted	-1.30	-1.99	-2.18	-2.84	-1.98	-0.41	-0.20	-0.07
FCF per share	-3.82	-2.85	-3.01	-2.53	-1.20	-0.16	-0.04	0.20
Book value per share	3.24	5.50	4.26	2.59	1.73	1.51	1.46	1.38
Number of shares, m	30.9	46.6	59.4	67.7	112	207	207	207
Number of shares after dilution, average	30.9	46.6	59.4	67.7	112	207	207	207

Source: Midsummer, Carnegie

Valuation								
	2019	2020	2021	2022	2023	2024e	2025e	2026e
P/E, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
P/BV	8.2x	2.0x	3.6x	4.5x	0.7x	0.7x	0.7x	0.7x
P/FCF	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	5.2x
FCF yield	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	19%
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	4.7x	4.2x	7.1x	13.0x	3.7x	1.1x	0.7x	0.7x
EV/EBITDA, adjusted	104.0x	Neg.	Neg.	Neg.	Neg.	-9.8x	149.5x	14.9x
EV/EBIT, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	-5.1x	-11.2x	-34.6x
EV	938	501	965	1,024	320	417	417	417
Share price, year-end	26.8	10.8	15.3	11.5	1.0	1.0	1.0	1.0

Source: Midsummer, Carnegie

Share price and average fair value chart



Source: Penser by Carnegie, IDC

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