



## Penser Access by Carnegie

Semiconductors & Semiconductor Equipment | Sweden | 23 February 2024

# Midsummer

## Production expansion on the cards

### Neutral Q4'23 report

Midsummer reported what we consider a relatively neutral report. Total revenues widened from SEK9.7m to SEK14.7m, but net sales narrowed from SEK17.8m to SEK14.7m Y/Y. The key reason was that the company is switching from the relatively expensive production at its Swedish plant to provide the market with products from its more effective factory in Bari, where production will scale up during 2024. 2023 was taken up with the company's transition into a large-scale producer and full-year EBIT came in at SEK-200.7m (-93.0 in 2022). The result was, however, in line with adjusted EBIT in 2022, a year that included a large contribution from the Italian state. According to the company, all production equipment for the Italian factory has now been delivered and all documentation to the Italian authorities submitted, suggesting that it is only a matter of time before the final contribution is paid out.

### Forecasts largely unchanged

We leave our estimates unchanged on the whole. Our 2024 scenario is still based on the Italian factory scaling up production during the year, with the company able to sell its products as its output increases. Even though the likelihood is increasing that the company can receive EU funding for further extensive scaling-up of 200 MW (versus current production of 1 MW and the 50 MW planned), we do not include this in our forecasts as the counterpart financing requirement remains.

### Fair value unchanged – outlook for solar energy remains extremely favourable

We stick to our fair value following the report. Midsummer is in the midst of significant solar panel capacity expansion and, should the company succeed, it will be a completely different entity in the future. There will be challenges along the way, but these will diminish as the equipment comes on line in Italy. A number of structural factors indicate substantial demand increases for solar energy, the most crucial of which is lower costs for purchased components, meaning lower prices for customers, as well as climate change that reduces the supply of previously stable power sources like hydro and nuclear power in the summer. Thanks to its unique technology, Midsummer can address the part of the market with roofs that cannot bear the weight of traditional panels, and it should thus take market share in a niche that currently lacks alternative products.

Change in estimates				Forecast (SEKm)				Value and risk			
	24e	25e	26e		2023	2024e	2025e	2026e	Fair value	SEK 2.5 - 3.3	
Total revenues	-1.4%	-0.9%	-	Total revenues	86	386	613	641	Share price	SEK 1.0	
EBIT, adj.	1.8%	3.6%	-	Revenue growth	9%	>100%	59%	5%	Risk level	High	
EPS, adj.	1.7%	3.3%	-	EBITDA, adj.	-131	-42	3	28	<b>Price performance 12 months</b>		
<b>Upcoming events</b>				EBIT, adj.	-201	-82	-37	-12			
Q1 - report		02 May 2024		EPS, adj.	-2.0	-0.4	-0.2	-0.1			
Q2 - report		19 July 2024		EPS growth, adj.	N.m.	N.m.	N.m.	N.m.			
<b>Company facts (SEKm)</b>				BV/share	1.7	1.5	1.5	1.4			
Number of shares		207m		EBIT margin, adj.	Neg.	Neg.	Neg.	Neg.			
Market capitalisation		210		ROE, adj.	Neg.	Neg.	Neg.	Neg.			
Net debt		207		ROCE, adj.	Neg.	Neg.	Neg.	Neg.			
EV		417		EV/Sales	3.7x	1.1x	0.7x	0.6x			
Free float		79%		EV/EBITDA	-	-	148.6x	14.8x			
Daily trading volume, average		294k		P/E, adj.	-0.6x	-2.5x	-5.2x	-13.8x			
Bloomberg Ticker		MIDS SS EQUITY		FCF yield	-105%	-16%	-4%	19%			
				Net debt / EBITDA	-1.6x	1.8x	6.4x	5.8x			
<b>Analyst</b>								<b>Conflicts of interest</b>			
Örjan Rödén										Yes	No
orjan.rodén@carnegie.se										Liquidity provider	✓
										Certified adviser	✓
										Transactions 12m	✓

## 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 in 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
<b>Net sales</b>	<b>184</b>	<b>72</b>	<b>94</b>	<b>53</b>	<b>50</b>	<b>350</b>	<b>578</b>	<b>606</b>
Other operating income	17	47	42	26	36	36	35	35
<b>Total revenues</b>	<b>201</b>	<b>119</b>	<b>136</b>	<b>79</b>	<b>86</b>	<b>386</b>	<b>613</b>	<b>641</b>
Cost of goods sold	-107	-41	-92	-100	-35	-280	-462	-467
<b>Gross profit</b>	<b>94</b>	<b>78</b>	<b>44</b>	<b>-21</b>	<b>51</b>	<b>106</b>	<b>151</b>	<b>175</b>
Other operating expenses	-85	-128	-117	-143	-182	-148	-148	-147
<b>EBITDA</b>	<b>9</b>	<b>-50</b>	<b>-73</b>	<b>-67</b>	<b>-131</b>	<b>107</b>	<b>32</b>	<b>28</b>
Items affecting comparability	0	0	0	97	0	150	29	0
<b>EBITDA, adjusted</b>	<b>9</b>	<b>-50</b>	<b>-73</b>	<b>-164</b>	<b>-131</b>	<b>-42</b>	<b>3</b>	<b>28</b>
Depreciation	-32	-24	-38	-34	-70	-40	-40	-40
<b>EBITA, adjusted</b>	<b>-23</b>	<b>-74</b>	<b>-111</b>	<b>-198</b>	<b>-201</b>	<b>-82</b>	<b>-37</b>	<b>-12</b>
<b>EBIT</b>	<b>-23</b>	<b>-74</b>	<b>-111</b>	<b>-101</b>	<b>-201</b>	<b>67</b>	<b>-8</b>	<b>-12</b>
<b>EBIT, adjusted</b>	<b>-23</b>	<b>-74</b>	<b>-111</b>	<b>-198</b>	<b>-201</b>	<b>-82</b>	<b>-37</b>	<b>-12</b>
Net financial items	-12	-18	-19	4	-24	-3	-3	-3
<b>Profit before tax</b>	<b>-35</b>	<b>-92</b>	<b>-130</b>	<b>-97</b>	<b>-225</b>	<b>64</b>	<b>-12</b>	<b>-15</b>
<b>Profit before tax, adjusted</b>	<b>-35</b>	<b>-92</b>	<b>-130</b>	<b>-194</b>	<b>-225</b>	<b>-86</b>	<b>-40</b>	<b>-15</b>
Taxes	-5	0	1	1	3	0	0	0
<b>Net income</b>	<b>-40</b>	<b>-92</b>	<b>-130</b>	<b>-96</b>	<b>-222</b>	<b>64</b>	<b>-12</b>	<b>-15</b>
<b>Net income, adjusted</b>	<b>-40</b>	<b>-92</b>	<b>-130</b>	<b>-193</b>	<b>-222</b>	<b>-86</b>	<b>-40</b>	<b>-15</b>
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
<b>Cash flow from operating activities</b>	<b>-73</b>	<b>-80</b>	<b>-63</b>	<b>-109</b>	<b>-71</b>	<b>22</b>	<b>47</b>	<b>66</b>
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
<b>Cash flow from investments</b>	<b>-45</b>	<b>-53</b>	<b>-115</b>	<b>-62</b>	<b>-64</b>	<b>-55</b>	<b>-55</b>	<b>-25</b>
<b>Free cash flow</b>	<b>-118</b>	<b>-133</b>	<b>-179</b>	<b>-171</b>	<b>-135</b>	<b>-33</b>	<b>-8</b>	<b>41</b>
New share issue / repurchase	0	248	126	0	168	55	0	0
Other items	176	-9	-7	13	-15	0	0	0
<b>Cash flow from financing</b>	<b>176</b>	<b>239</b>	<b>119</b>	<b>13</b>	<b>153</b>	<b>55</b>	<b>0</b>	<b>0</b>
<b>Cash flow</b>	<b>58</b>	<b>106</b>	<b>-60</b>	<b>-158</b>	<b>18</b>	<b>22</b>	<b>-8</b>	<b>41</b>
<b>Net debt</b>	<b>111</b>	<b>-2</b>	<b>56</b>	<b>243</b>	<b>216</b>	<b>194</b>	<b>202</b>	<b>161</b>

Source: Midsummer, Carnegie

## Balance sheet

	2019	2020	2021	2022	2023	2024e	2025e	2026e
<b>ASSETS</b>								
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
<b>Total fixed assets</b>	<b>93</b>	<b>127</b>	<b>208</b>	<b>213</b>	<b>248</b>	<b>263</b>	<b>278</b>	<b>263</b>
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
<b>Total current assets</b>	<b>259</b>	<b>393</b>	<b>283</b>	<b>249</b>	<b>270</b>	<b>430</b>	<b>507</b>	<b>561</b>
<b>TOTAL ASSETS</b>	<b>352</b>	<b>520</b>	<b>491</b>	<b>461</b>	<b>518</b>	<b>693</b>	<b>785</b>	<b>823</b>
<b>EQUITY AND LIABILITIES</b>								
Equity	100	256	253	175	195	313	302	287
<b>Total equity</b>	<b>100</b>	<b>256</b>	<b>253</b>	<b>175</b>	<b>195</b>	<b>313</b>	<b>302</b>	<b>287</b>
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
<b>Total long-term liabilities</b>	<b>215</b>	<b>209</b>	<b>208</b>	<b>27</b>	<b>223</b>	<b>223</b>	<b>223</b>	<b>223</b>
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
<b>Total current liabilities</b>	<b>36</b>	<b>55</b>	<b>30</b>	<b>259</b>	<b>100</b>	<b>157</b>	<b>260</b>	<b>314</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>352</b>	<b>520</b>	<b>491</b>	<b>461</b>	<b>518</b>	<b>693</b>	<b>785</b>	<b>823</b>

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

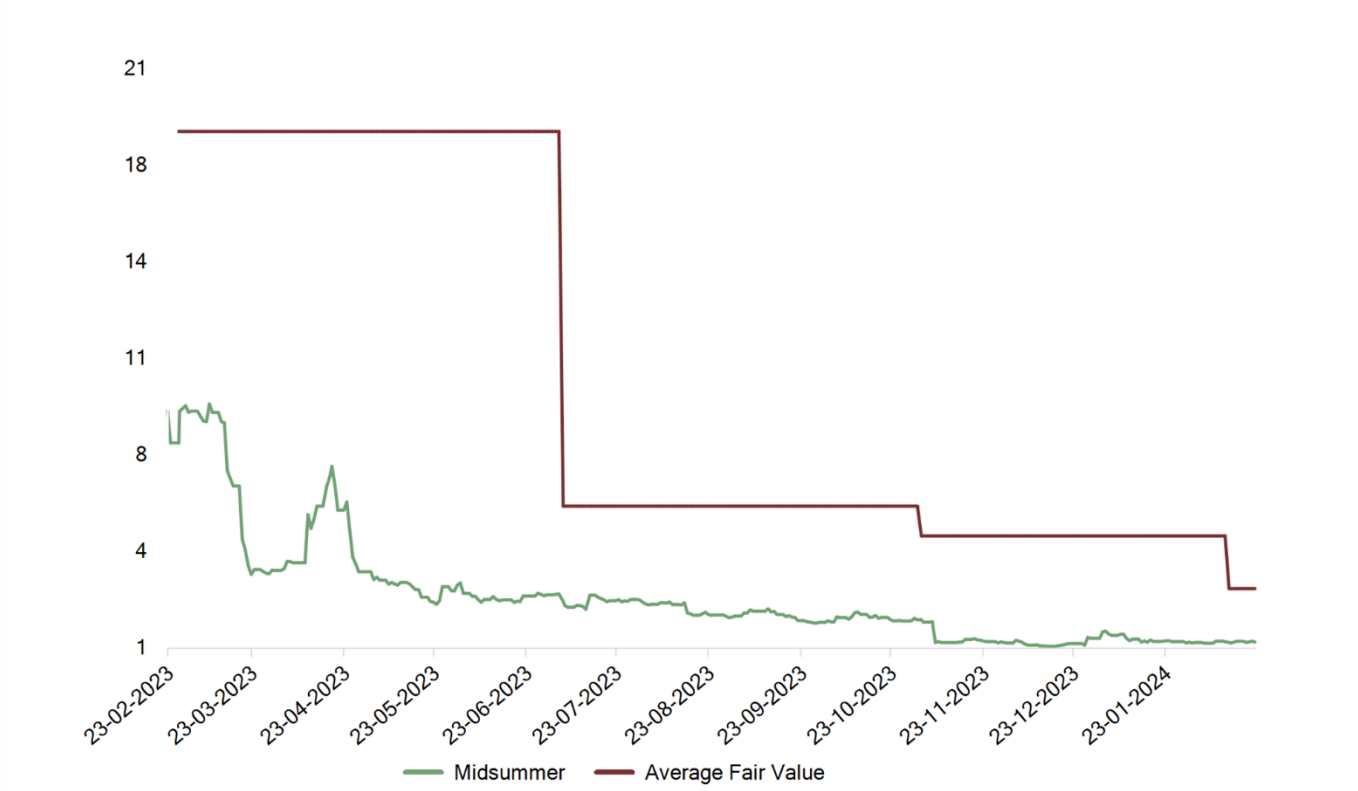
### Valuation

	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

Midsummer (MIDS SS EQUITY)



Source: Penser by Carnegie, IDC

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