Etrion (ETX)

Switzerland|Renewable Energy|MCAP MSEK 451

Buy

Target Price	**SEK 1,68**
Current Price	SEK 1,42
Up/downside	18,3 %

The sun is shining and so is Etrion

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Etrion SA ("Etrion" or the "Company") is an independent solar power producer that develops, builds and owns utility-scale power plants. The power plants generate clean, reliable and cost-effective electricity by encapsulating energy from the sun. The Swiss-based Company operates in Japan, the 3rd largest market for solar power, and secure all assets with long-lived Feed-in-Tariffs ("FiT"). The global market for Green Technology is predicting a 27,1 % CAGR 2019-2024 driven by environmental, social and governance ("ESG"). Etrion is investing in two new major solar plants; Niigata and Mie. The Niigata project expects to be connected in Q4-21, resulting in an annual sales CAGR of 6,7 % 2022–2024. The rapidly increasing revenue that these projects will bring motivates why Etrion should be traded at a lower EV/S multiple in the future. With a target EV/S multiple of 2,5x in 2024, a discounted price per share of 1,68 SEK and an upside of 18,3 % is motivated.

Environmental, social and governance (ESG) is thriving and attracts more investors as OECD societies demand an awareness toward green portfolios. According to Allied Market Research, the global solar energy market was valued at 524,2 BSEK in 2018 and is expected to grow at a CAGR of 20,5 % from 2019 to 2024.[1] The Asian market is expected to achieve a revenue CAGR of 22,3 % within the same period. Moreover, solar power will play an important role in the global energy mix in the future. Ultimately, this is going to benefit financing opportunities for Etrion as the Company relies on being able to carry vast amounts of debt in order to finance future plants.

The ongoing 45 MW Niigata solar project was financed through a green bond at approximately 1,3 BSEK. The 75,6-hectare plant is expected to be connected by Q4-21 and will add 147,3 MSEK in average annual revenues, i.e. a 6,7 % CAGR. Also, the project is secured under an 18-year power purchase agreement ("PPA") generated from FiT.

Etrion has another 60 MW project, Mie, in backlog estimated to increase revenue by c. 60 % after the forecast period. However, due to heavy investments in the Mie project, it is forecasted to annually increase D&A by 7,8 % 2021E-2024E and thereby affect EBIT-margins within the span of 2021E-2024E.

An expected upside of 21,4 % based on the current share price is justified as revenue projects to reach its apex throughout the forecast period by 243 MSEK in 2024E. Etrion is expected to trade at 2,5x EV/S in 2024E, due to increased annual revenue by 147 MSEK derived from the Niigata project.

[1] https://www.alliedmarketresearch.com/solar-energy-market

Market Data	
Listing Venue	OMXS Small Cap
Price (SEK)	1,4
No. of outstanding shares(m)	226,3
Market Cap (m)	451
Cash & Cash Equivalents (m)	1,2
Debt (m)	2,9
Net Debt (m)	1,8
Enterprise Value (m)	2085,0

Key Financials (MSEK)	19A	20E	21E	22E
Sales (m)	207,8	196,5	200,1	214,3
Sales Growth y/y	12,1%	-5,5%	1,8%	7,1%
Gross Profit	157,2	167,9	174,5	142,8
Gross Margin (%)	75,6%	85,4%	87,2%	66,6%
EBITDA (m)	104,4	141,9	151,3	72,3
EBITDA Margin (%)	50,2%	72,2%	75,6%	33,7%
EBIT (m)	16,1	60,2	66,3	-28,1
EBIT Margin (%)	7,7%	30,1%	33,1%	-13,1%
Net Income	-36,9	0,1	2,6	-134,2
Profit Margin (%)	-17,8%	0,1%	1,2%	-62,6%

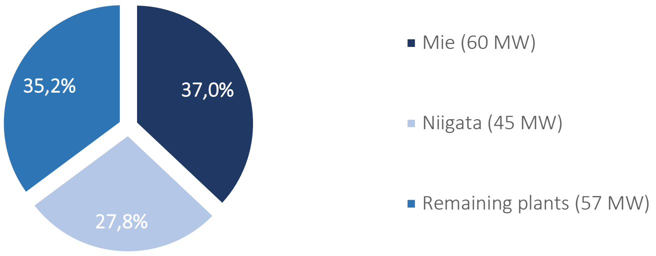
Key Ratios	19A	20E	21E	22E
EV/Sales	10,0	10,6	10,4	9,7
P/S	2,2	2,3	2,3	2,1
EV/EBITDA	20,0	14,7	13,8	28,8
EV/EBIT	129,7	34,7	31,4	-74,2
Net Debt/EBITDA	12,6	12,6	11,7	24,4

Major shareholders	
Lundin Family	34.9%
Marco Northland	5.6%
Steelhead Partners LLC	1.5%
Ian Henrik Lundin	1.3%
Charles Heppenstall	1.0%
Total	44.3%

Investment thesis

The market for renewable energy enables Etrion to establish themselves in an emerging and attractive environment. The Company's operations consist of eleven solar projects active and the addition of the Niigata project will up-scale electricity capacity by 78,9 %, as well as an additional 58,8 % thereupon the completion of the Mie project. In total, the two upcoming projects will accumulatively increase the operational capacity by 184,2 %. The 45-MW Niigata solar project is expected to be connected Q4-21 and will ad c. 147,3 MSEK in average annual operational revenues.

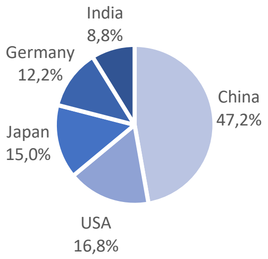
Operations tied to Etrion
As a % of generated MW



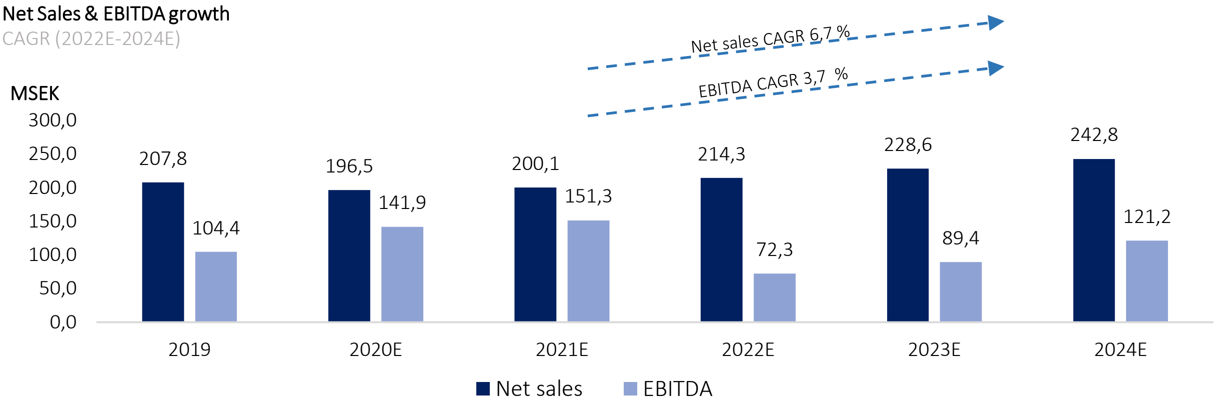
The Niigata solar project has strengthened Etrion's position on the 3rd largest market in the world, Japan, which has a total capacity of 56,000 MW valued at c. 75,0 BSEK. As their business plan assures security by government-backed FiT-model, the Company is safe under the PPA which, should soothe investors of potential backlash. Moreover, the project is expected to grant Etrion a scaling 6,7 % annual revenue increase throughout the forecast period.

The 60 MW Mie project is expected to enlist litigations 2021 and engage in construction following that year. D&A expenditures are expected to grow from an average of 39,1 % of Sales 2017-2020 to an average of 44,1 % 2021E-2024E considering the Mie project itself is larger than the Company's accumulated MW occupancy as of today. Heavy investments in this project will conjure a comprehensive expense for the Company; however, the contraposition will ensue a total increased revenue growth by c. 60,0 % after the forecast period.

Market
Among top 5 market leaders*



Net Sales & EBITDA growth
CAGR (2022E-2024E)



Etrion's business model positions the Company in a seat where cost uncertainties might lead to strategic changes. Etrion's Net-Debt/EBITDA of 15,3x might concern investors after Japan's GDP plunged -1,6 % in Q4-19. However, the expected longevity and security under FiT revenues soothes the exposure to risk. Though, a recession would aggravate future borrowings and require Etrion to pay higher interest rates, which could put the Company at risk to halt the Mie project. A worsened scenario wouldn't allow Etrion to benefit from the Green bonds, which could affect the Mie projects financing. Additionally, it can possibly alter the expected deadline of the Niigata project, which is expected to inaugurate in Q4-21.

Valuation

The valuation is based on a target multiple of EV/S 2,5 in 2024E, which is derived from the current median of comparable companies. This indicates that if the Company would trade at the median, a 21,4 % upside is justified. Companies that are engaged in solar power are long-lived, which is why an earnings multiple in a premature stage wouldn't carry as much significance for this nature of business. Etrion is expected to trade at 2,5x Sales in 2024E, due to increased annual revenue by 147,0 MSEK from the Niigata project.

The method used to extract the share price was by discounting the enterprise value to today by using a WACC. The equity portion of the WACC is calculated by using a risk-free rate of 2,6 %, beta of 1,1 and an equity risk premium of 6,8 %. The total cost of debt was derived by calculating Japan's corporate tax. The WACC has an equity to debt ratio of 32,2/67,8. The target price discounted today is 1,68 SEK which would imply and upside of 18,3 %.

The target multiple is motivated through the median from the peer table. Based on the 2020-2024 forecast and what Etrion has in store in its pipeline as motivated in the Investment thesis, the Company should trade at a lower EV/S multiple. Based on the broad spectrum of chosen peers in addition with large key players such as Scatec Solar, First Solar and Canadian Solar and smaller companies in an earlier stage of development, the median still conveys growth and promise for Etrion who still hasn't fully matured yet.

Company Name	Country	Market Cap. (SEKm)	Enterprise Value (SEKm)	P/Sales	EV/Sales	EV/EBITDA	EV/EBIT	P/E
Scatec Solar	NOR	20 216,0	18 488,0	11,3	10,4	13,3	21,2	-518,4
Canadian Solar	CAN	1 207,0	2 821,0	0,3	0,8	5,7	7,7	5,1
SolTech Energy	SWE	913,0	1 561,0	3,6	6,1	17,9	33,0	-64,8
Midsummer	SWE	556,0	667,0	2,8	3,3	74,0	-28,9	-13,8
Parans Solar	SWE	81,0	75,0	12,5	11,5	-4,6	-3,6	-3,8
Solelgrossisten	SWE	101,0	102,0	1,8	1,8	40,6	49,5	75,4
First Solar	USA	4 826,0	3 131,0	1,6	1,0	-19,4	-19,4	-42,0
REC Silicon	NOR	1 030,0	2 342,0	0,7	1,7	-21,0	-3,3	-0,9
Maximum		20 216,0	18 488,0	12,5	11,5	74,0	49,5	75,4
75th Percentile		2 111,8	2 898,5	5,5	7,2	23,6	24,1	0,6
Average		**5 125,8**	**5 057,4**	**5,2**	**4,6**	**13,3**	**7,0**	**-70,4**
Median		**1 118,5**	**2 581,5**	**3,2**	**2,5**	**9,5**	**2,2**	**-8,8**
25th Percentile		645,3	890,5	1,6	1,5	-8,3	-7,5	-47,7
Minimum		81,0	75,0	0,3	0,8	-21,0	-28,9	-518,4
Etrion Corp y2019	JPN	451,0	2 085,0	2,2	10,0	20,0	129,7	-12,2

The Company's should for the following reasons be valued at the target multiple of 2,5x:

- **Exceptional solar projects in the backlog:** the addition of the Niigata project is going to increase solar power operations by 78,9 %, as well as an additional 58,8 % thereupon the completion of the Mie project. The Niigata project is expected to grant Etrion a scaling 6,7 % annual revenue, i.e. c. 155,0 MSEK per annum. The Mie project is going to increase capital expenditures during the forecast period; however, upon completion, the project will ensure total revenue growth by c. 60,0 %.

- **Strategic geographical position:** The Company operates in Japan, the 3rd largest market for solar power and secure all assets with long-lived Feed-in-Tariffs ("FiT"). Etrion's business plan is insured by the Japanese government through the power purchase agreement, which protects the Company from potential backlash.

Appendix

Etrion financials, actual and estimates.

MSEK	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
Income Statement	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec
Net sales	**144,7**	**207,6**	**185,3**	**207,8**	**196,5**	**200,1**	**214,3**	**228,6**	**242,8**
Cost of goods sold (COGS)	-76,6	-88,9	-49,0	-50,6	-28,6	-25,6	-71,5	-69,8	-59,4
Gross Profit	**68,2**	**118,6**	**136,2**	**157,2**	**167,9**	**174,5**	**142,8**	**158,8**	**183,4**
G&A	-75,0	-83,4	-56,7	-51,9	-27,2	-24,2	-71,7	-70,6	-63,7
Additional termination fee	0,0	0,0	-12,3	0,0	-1,5	-1,6	-1,7	-1,8	-2,0
Other income (expense)	2,9	5,1	4,5	-0,9	2,7	2,7	2,9	3,1	3,4
EBITDA	**-3,9**	**40,2**	**71,8**	**104,4**	**141,9**	**151,3**	**72,3**	**89,4**	**121,2**
Impairments	-721,6	-2,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0
D&A	-104,1	-97,6	-75,2	-88,3	-81,7	-85,0	-100,4	-103,8	-102,1
EBIT	**-829,6**	**-59,5**	**-3,4**	**16,1**	**60,2**	**66,3**	**-28,1**	**-14,3**	**19,1**
Financial income	58,1	4,2	12,3	30,8	9,5	6,5	6,9	7,3	7,7
Financial expenses	-206,3	-163,1	-79,2	-59,9	-69,6	-69,6	-149,5	-130,6	-104,9
EBT	**-977,8**	**-218,4**	**-70,4**	**-13,0**	**0,1**	**3,2**	**-170,7**	**-137,7**	**-78,1**
Income Tax	-70,8	-10,7	-11,5	-23,9	0,0	-0,7	36,5	29,5	16,7
Net Income	**-1048,6**	**-229,1**	**-81,9**	**-36,9**	**0,1**	**2,6**	**-134,2**	**-108,2**	**-61,4**

Sensitivity Table.

Enterprise Value / Sales

Sales	2x	4x	6x	8x	10x	12x	14x
2018	371	741	1112	1482	1853	2223	2594
2019	314	629	943	1257	1572	1886	2200
2020	393	786	1179	1572	1965	2358	2752
2021	400	800	1201	1601	2001	2401	2801
2022	429	857	1286	1715	2143	2572	3001
2023	457	914	1372	1829	2286	2743	3200
2024	486	971	1457	1943	2428	2914	3400

WACC.

WACC		
Weight of Debt	32,2%	
Weight of Equity	67,8%	
Debt to Equity ratio	**0,47**	
Risk free Rate	2,6%	*PWC normalisering
Beta	1,1	*Peer average
Equity risk premium	6,8%	*PWC
Size Premium	0,5%	
Total cost of Equity	**10,4%**	
Total cost of Debt	3,5%	
Tax Rate	27,0%	Corporate tax rate (japan)
Cost of Debt after Tax	**2,6%**	
WACC	**7,9%**	