

Cambi ASA (CAMBI)

Norway | Wastewater-treatment | MCAP NOKm 2,345

08 June 2024

Buy

Target price:	NOK 20.5
Current price:	NOK 14.6
Upside	40.4%

Waste manage your portfolio

Cambi ASA (“Cambi” or “the Company”) is a global leader in sustainable wastewater treatment, specializing in thermal hydrolysis processes (THP). Founded in 1992 and headquartered in Asker, Norway, Cambi transforms wastewater sludge and turns it into biosolids, biogas, and energy, thereby helping water treatment plants reach regulatory goals of becoming climate neutral while also decreasing plants operational costs by 50.0%. With increasing attention to sustainability, Cambi has seen an upswing in order intake, growing revenue by 122.0% between 2022 and 2023. Furthermore, by commercializing the product and shifting focus to profitability and sales, Cambi has managed to grow the Company's order backlog fourfold since 2022. Cambi's monopoly-like market position, with an 85.0% market share combined with margins expected to remain at 2023 levels, a target price of NOK 20.5 is implied through an equally weighted peer valuation and DCF analysis, indicating an upside of 40.4%.

Key takeaways

- **Leading position to capitalize on market tailwinds:** Cambi has achieved a market share of 85.0% by being able to treat wastewater more energy efficiently than peers, allowing water treatment plants to cut operational costs by 50.0%, resulting in a payback period of an average of three years compared to competitors ranging over five years. With recent regulations forcing water treatment plants to become climate neutral, Cambi, providing the necessary equipment for the transition is set to capitalize on this market tailwind, leading to an estimated topline CAGR of 17.2% until 2026.
- **Strong proof of concept makes rippling effects prominent:** Cambi currently operates 26 plants and treats 50.0% of the population's water in the privatized UK market, demonstrating a proof of concept and the strong demand for THP-plants. However, municipalities act at a slower pace than privatized companies, as seen in the US where negotiations for the first contract took eight years. Since the first installation in 2011, Cambi has installed 10 additional plants. Historically, municipalities experience long initial bureaucratic political processes in deciding to install new solutions, but subsequent installations proceed more quickly. Therefore, the rippling effect is set to continue, supported by three new market entries in the last two years.
- **Operational leverage enables continued high margins:** As of today, Cambi only needs to hire a small team for additional projects, making the gross profit trickle straight down into EBITDA. Cambi's standardized product portfolio allows the Company to use the same components, leading to production on assembly lines, which has resulted in OPEX halving as a percentage of sales between 2022 and 2023. With continued high volumes of projects and an order backlog of NOK 1.7bn, EBIT margins are set to remain stable at 21.0% going forward, resulting in an EPS CAGR of 18.3% until 2025E.

Analysts

Colin Pettersson	Equity Analyst
Jonas Höyby Fathi	Equity Analyst

Market Data, NOKm

Exchange	Oslo Euronext Growth
Shares (m)	160.1
MCAP (m)	2,345
EV (m)	2,012

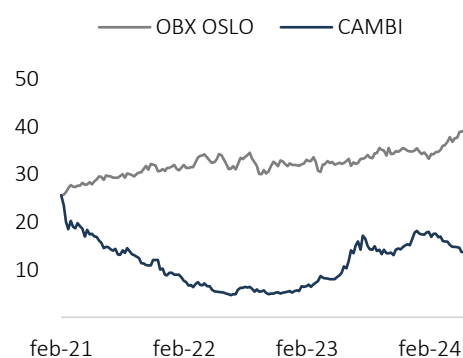
Metrics & Drivers	23A	24E	25E
EV/EBIT	9.8x	7.6x	6.7x
EV/EBITDA	8.8x	6.7x	5.8x
EV/S	2.0x	1.5x	1.4x
P/E	14.9x	11.5x	9.9x
ND/EBITDA	(1.5x)	(1.4x)	(1.3x)

Forecast, NOKm	23A	24E	25E
Total revenue	977	1,215	1,408
Rev. growth y/y	122.0%	24.4%	15.9%
Gross Profit	531	649	752
Gross Margin	54.4%	53.4%	53.4%
EBITDA	249	285	332
EBITDA Margin	25.5%	23.4%	23.6%
EBIT	225	255	297
EBIT Margin	23.1%	21.0%	21.1%

Major Shareholders

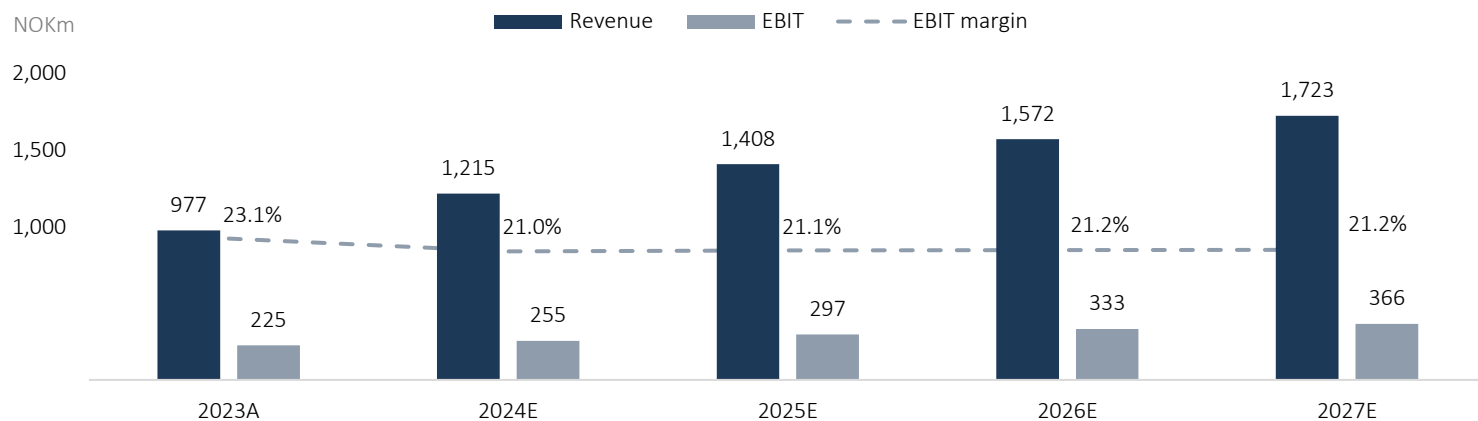
Cortex AS	59.0%
AWC AS	18.9%
Verdipapirfondet Dnb Miljøinvest	4.8%

Price Development, NOK



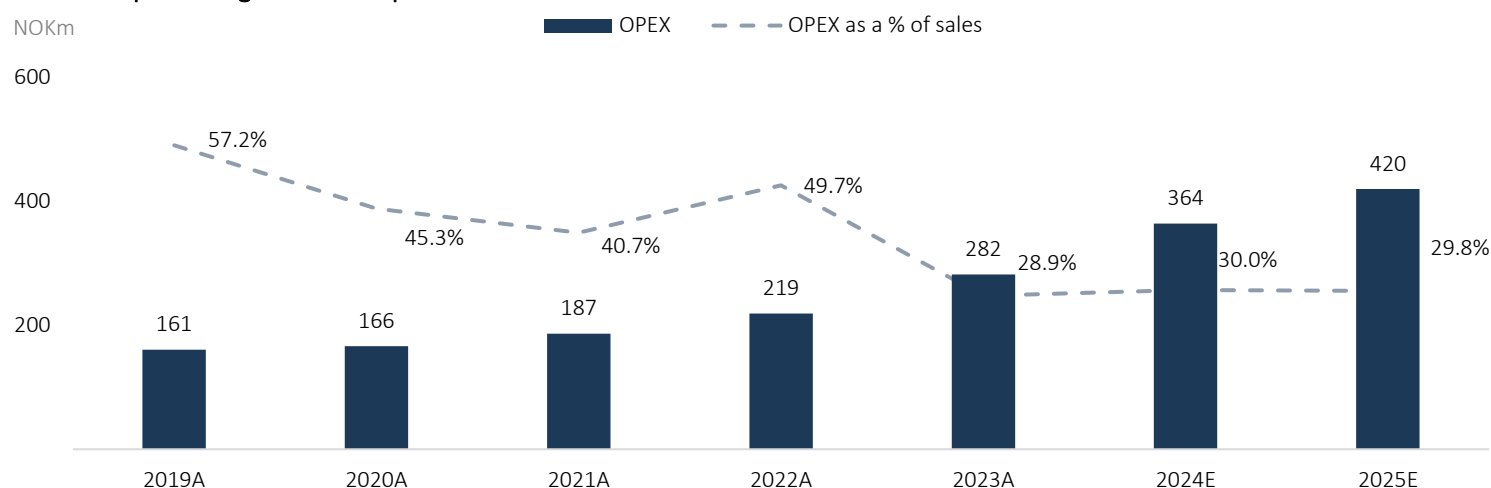
Investment thesis in charts

Increased stringent regulations drive revenue growth at a CAGR of 17.2% until 2026E



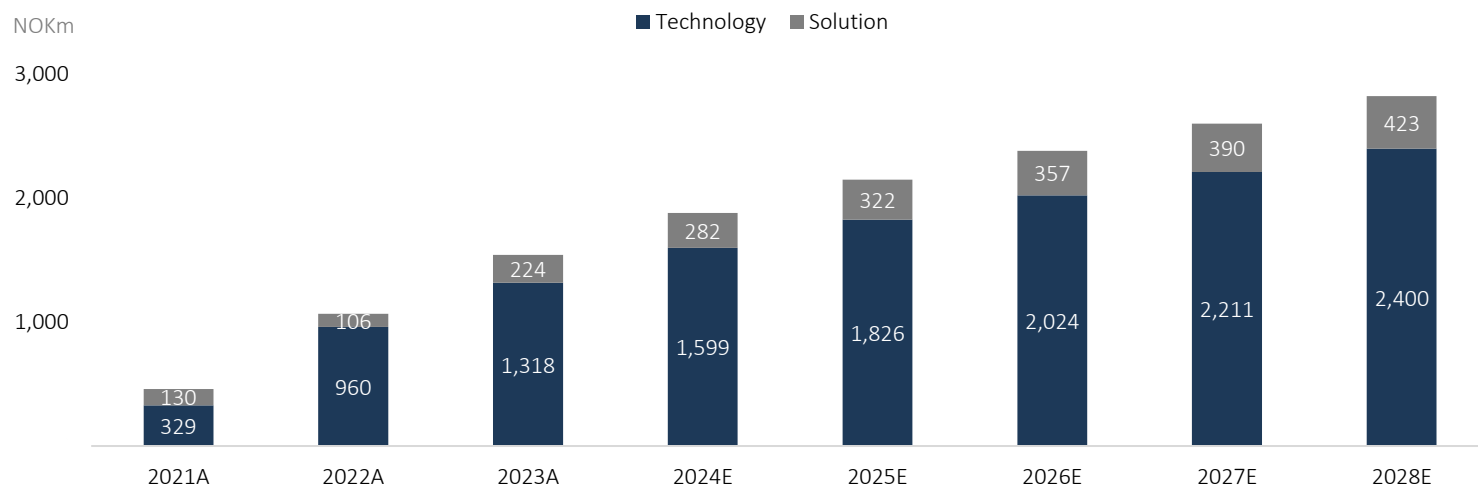
Source: The Company, Analyst estimates

OPEX as a percentage of sales expected to remain stable as revenue increases



Source: The Company, Analyst estimates

Technology order backlog to grow at an 8% CAGR, solutions at a 7% CAGR until 2029E



Source: The Company, Analyst estimates

Investment thesis

Regulations drive rapid market growth: Currently, emissions from global wastewater treatment plants account for 5.0% of all greenhouse gas emissions, equivalent to the entire aviation industry. Therefore, the industry is shifting towards greener and more reliable solutions to comply with increasing regulations, such as the EU's goal for all water treatment plants to be climate neutral by 2040, leading to an expected market CAGR of 8.0% until 2030E. Cambi's first-mover advantage and elevated technology creates high entry barriers, further securing the Company's 85.0% market share going forward. The Company has grown revenue by 122.0% between 2022 and 2023 due to stricter regulations and the acquisition of new technology, broadening the product portfolio by enabling installations at smaller plants. The Company's continued growth is supported by a communicated pipeline of more than 400 short term addressable water treatment plants, exemplified by Cambi's current backlog of NOK 1.7bn. Therefore, the Company is set to benefit from this regulatory tailwind, leading to a topline CAGR of 17.2% until 2026E.

Rippling effect will drive revenue growth outside of the EU: In addition to making water treatment plants climate neutral, Cambi's solutions also decrease operational costs by 50.0%, resulting in an average payback period of approximately 3 years. Cambi's value proposition has led to penetrating UK's privatized market, currently operating 26 plants and treating 50.0% of the population's water. However, municipalities generally act at a slower pace than privatized companies due to bureaucratic political processes, resulting in lengthy negotiations. Noticeable in the US where the first contract took eight years and since the Company's first installation in 2011, the Company now operates 10 additional plants. Due to municipalities' risk aversion of new solutions, along with lengthy initial processes, municipal clients tend to choose Cambi over peers. A gradual start, followed by rapid expansion, underscores the strong proof of concept and with 3 new market entries in the last 2 years, Cambi's rippling effect will be a significant driver of long-term growth going forward.

Commercializing with a scalable business allows for continued high margins going forward: With no need to increase production and the Company only needing to hire a small team of four new personnel for additional projects, the gross profit from additional projects trickle down to EBITDA. Since the IPO in 2021, Cambi has undergone a strategic shift under a new management, with the former CFO appointed CEO. By restructuring the Company's two segments combined with increasing focus on profitability, Cambi is now leveraging the Company's standardized product portfolio through using the same components which allows for effective and cost-efficient production, resulting in OPEX halving as a percentage of sales between 2022 and 2023. With continued high volumes of projects, Cambi is set to maintain current margin levels, constituting a stable EBIT margin of 21.1% until 2025, with an EPS CAGR of 18.3% to 2025.

Municipalities pose a risk of contract delays: A risk facing Cambi is that the Company's main customers are municipalities, which require substantial political processes to decide on upgrades and installations, potentially leading to project delays and unpredictable order intake. However, as more installations are carried out, Cambi's solution is gaining more recognition, which historically has led to quicker decision-making from municipalities. With unpredictable order intake and recognizing revenue as a percentage of completion, combined with high fixed costs, individual quarters can also suffer from lower margins. However, looking at Cambi on an annual basis the timing of payments are mitigated leading to a net zero effect on margins. By consistently delivering successful projects and building a strong track record, Cambi can further enhance its reputation and accelerate the decision-making process among municipal clients.

Company Overview

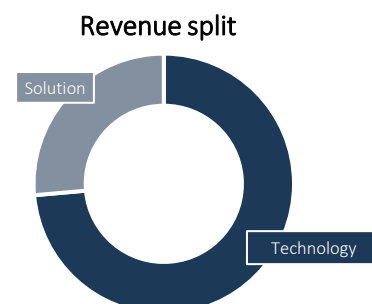
Market leading supplier of waste water treatment solutions globally

Cambi is a Norwegian company founded in 1992, and is the leading provider of THP, helping water treatment plants become climate neutral. Cambi manufactures the products in-house, ships them out, and deliver the Company's value proposition through a one-time installation. Currently operating 89 plants globally, the Company is the leading provider of THP solutions with a market share of 85.0%. The business is split into two segments: technology and solutions, of which the technology segment consists of the sales of the Company's solutions and is the most profitable, generating 74.0% of the total revenue.

Business Model

Largest provider of thermal hydrolysis treatment

By focusing on the installation part of water treatment plant upgrades, Cambi's technology segment, which consists of the project installations, currently operates at an EBIT margins of 20.0% LTM. A typical project duration is around three years and is divided into three main stages: manufacturing, installation, and testing. Cambi receives 40.0-50.0% of the project payment early in the installation phase, which allows the Company to stay cash positive throughout the project duration, making the business scalable.



Aftermarket sales and Groon Vekst

Cambi's solutions segment, which makes up 26.0% of the total revenue, consists of sales of spare parts, services, and the Company's subsidiary Groon Vekst. The subsidiary operates solely in Norway and focuses on retrieving recycled biosolids and peat-free soil from water treatment plants. Making the segment non-cyclical due to waste being produced regardless of the economy. These products are then sold to retail stores and companies.

Market Overview

Cambi positioned for growth as climate regulations tighten

The wastewater treatment industry is estimated to grow at a CAGR of 8.0% from 2024 to 2030. Furthermore, with Increasing stringent regulations and sustainability goals, particularly in the EU, require water treatment plants to become climate neutral by 2040. Water treatment plants is often considered being the "low-hanging fruit" for reducing greenhouse gas emissions, which combined with CAPEX investments in European water infrastructure estimated to reach USD 476bn by 2030, results in Cambi operating in a market with significant tailwinds. To bolster this, Cambi has indicated that 3,000 plants could benefit from their solutions securing long term possibilities for growth. As the 2040 deadline approaches, it is hard to see the demand for Cambi's solution slowing down.

Strong key player within the industry

A strong proof of concept and an experienced team is essential for successfully operating in this niche market. With high development costs for similar technology, combined with the lengthy processes for testing and obtaining permits to operate at government plants, as seen in the US where it took 10 years, creates high barriers to entry. This ensures that only well-established companies with robust operational capabilities can compete. Cambi's extensive experience and expertise in navigating regulatory landscapes, coupled with the Company's market leading payback period averaging 3 years reinforces Cambi's competitive advantage, leading to the Company's monopoly-like market position with an 85% market share. The Company's ability to deliver complex projects and its strong reputation in the industry positions Cambi as a market leader, making it difficult for new entrants to gain a foothold.

Valuation

Market fails to price Cambi correctly

The companies under comparison in the peer analysis are mainly installations and construction companies with long lead times, similar margins, and projected growth. The companies are to some extent reliant on the Company's order backlog with long sale cycles. Based on the peer valuation Cambi is undervalued considering the Company's higher margins and Return on Invested Capital, with a target multiple of 11.5x 2025 EBIT, an upside of 33.0% is implied.

NOKm	Market Data			Financial Data	
	MCAP	EV	EBIT margin LTM	ROIC LTM	Valuation
					EV/EBIT (2025E)
Absolent	4,123	3,774	15.2%	11.8%	14.2x
Studsvik	5,579	12,575	8.0%	12.5%	9.9x
Nekkar	993	835	17.0%	18.0%	12.1x
Konecranes	47,848	50,006	10.7%	11.0%	9.9x
Lassila & Tikanoja	4,084	4,200	6.0%	20.5%	11.2x
Median	4,123	4,200	10.7%	12.5%	11.0x
Average	12,526	14,278	11.0%	15.1%	11.5x
Cambi	2,257	1,924	21.0%	34.0%	6.7x

Source: Bloomberg, Analyst estimates

DCF and peer valuation implies a target price of 20.5 NOK

The target price of NOK 20.5 is based on an equally weighted DCF and peer valuation. The potential upside from the peer valuation derives from a 2025E average EV/EBIT multiple of 11.5x. The DCF is calculated using a 2.0% TGR and 11.5% WACC, implying a potential upside of 49.7% or an equity value per share of NOK 21.8. The two valuation methods weighted together implies an potential upside of 40.4%

DCF Valuation breakdown, NOKm		WACC			TGR		
Present Value of Forecasted Cash Flow	4,684	21.8	1.0%	1.5%	2.0%	2.5%	3.0%
Present Value of Terminal Value	1,416	10.5%	23.4	23.9	24.6	25.3	26.2
Enterprise Value	3,151	11.0%	22.1	22.6	23.1	23.8	24.5
Equity Value	3,499	11.5%	20.9	21.3	21.8	22.4	23.0
Shares (m)	160.1	12.0%	19.9	20.2	20.7	21.1	21.6
Implied Share Price	21.8 NOK	12.5%	18.9	19.2	19.6	20.0	20.4

Appendix

NOKm	2018A	2019A	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E
Revenue	351	281	367	458	440	977	1,215	1,408	1,572	1,723	1,873	2,027
Cost of goods sold	(152)	(119)	(175)	(234)	(219)	(445)	(566)	(656)	(732)	(803)	(873)	(945)
Gross profit	199	161	192	224	222	531	649	752	839	920	1,000	1,083
<i>Gross margin</i>	56.7%	57.5%	52.4%	48.9%	50.3%	54.4%	53.4%	53.4%	53.4%	53.4%	53.4%	53.4%
Payroll expenses	(106)	(104)	(110)	(122)	(130)	(181)	(242)	(286)	(326)	(357)	(387)	(418)
Other expenses	(79)	(56)	(56)	(64)	(89)	(101)	(122)	(134)	(141)	(155)	(169)	(182)
EBITDA	14	1	27	38	3	249	285	332	372	408	444	482
<i>EBITDA margin</i>	4.0%	0.5%	7.3%	8.2%	0.6%	25.5%	23.4%	23.6%	23.6%	23.7%	23.7%	23.8%
D&A	(6)	(7)	(8)	(9)	(18)	(24)	(30)	(35)	(39)	(43)	(46)	(50)
EBIT	8	(6)	19	29	(16)	225	255	297	333	366	398	432
<i>EBIT margin</i>	2.3%	(2.0%)	5.0%	6.3%	(3.5%)	23.1%	21.0%	21.1%	21.2%	21.2%	21.3%	21.3%
Net financial items	2.2	(13)	(0.3)	(12)	2	4	(4)	(4)	(4)	(4)	(4)	(4)
EBT	10	(19)	18	17	(14)	229	251	293	329	362	394	428
<i>EBT margin</i>	2.9%	(6.7%)	4.9%	3.7%	(3.2%)	23.4%	20.7%	20.8%	20.9%	21.0%	21.0%	21.1%
Tax	(4)	(2)	(4)	(5)	(1)	(45)	(55)	(65)	(72)	(80)	(87)	(94)
Net income	14	(20)	14	12	(13)	184	196	229	257	282	307	334
<i>Net margin</i>	4.0%	(7.3%)	3.7%	2.6%	(2.9%)	18.9%	16.1%	16.3%	16.3%	16.4%	16.4%	16.5%

Source: The Company, Analyst estimates

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Other

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