

Update: Report Q1 2020

2020-04-28

Heliospectra: Preparing for rebound

- Strong sales but slowdown in order intake
- Increased uncertainty following COVID-19 pandemic
- We reiterate our fair value interval of SEK 5.50 – 8.30 per share

Analysts

Alf Riple, CFA
073-840 4008
alf.riple@vhcorp.se

Pascal Dettwiler
073-332 1473
pascal.dettwiler@vhcorp.se

Stock ticker: **HELIO**
Industry: **Electrical equipment**
Listed on: **Nasdaq First North**
Latest stock price (SEK): **5,60**
Market cap (MSEK): **314,6**
Enterprise Value (MSEK): **269,6**
Total number of shares (M): **56,18**
- of which free float (M): **18,71**

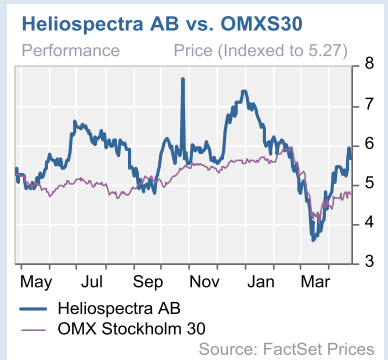
VHCF fair value per share
DCF model **SEK 5,50 - 8,30**

Heliospectra AB
Address: **Fiskhamngatan 2**
414 58 Göteborg
Webpage: **heliospectra.com**
CEO: **Ali Ahmadian**

Main owners (24 Apr 2020)

	Capital (%)
Weland Värdepapper AB	22,5
Weland Stål AB	18,6
ADMA Förvaltnings AB	14,1
Midroc New Technology AB	11,5
Avanza Pension	3,4

Stock price history



	-1m	-3m	-12m
Change (%)	47,7	-6,7	7,5
52 w k range (Low /Hi) - SEK		3,50 / 8,31	

Source: FactSet

Heliospectra presented its Q1 report last week and the report was mostly in line with our expectations. The reported sales and gross margin exceeded our estimates; however, the order intake was at its lowest figure in several years. This might not come as a shock, considering the ongoing global pandemic that is discouraging companies from investing in new projects. Heliospectra is using the excess time wisely, by focusing on strengthening customer relationships and building inventory for when the rebound of the economy is to take place. Although the slowdown in order intake is troublesome, we keep our fair value interval unchanged for now.

Heliospectra says it has not lost any business opportunities due to the ongoing crisis, but it has seen delays in project initiations. The company is using the time to strengthen its forward-looking focus and intends be on the top of the customers' minds when the economy is set for a rebound. This involves hosting virtual networking opportunities that both engages and educates customers through webinars, which helps the company build valuable relationships with food growers around the world.

Due to an increased uncertainty in the business case following the current pandemic, we have taken precautionary measures in our valuation model. Firstly, we have decreased the expected market share in the Food Grower market for Q2 and Q3 in combination with delaying the sales growth we anticipated for the year. Secondly, we have postponed the blockbuster order from Nectar Farms by one quarter since the project has been put on hold due to travel restrictions. In total, these are minor changes and does not change our overall long-term view of the business case. However, it might affect the financial strength of the company and we now foresee a SEK 25 million capital increase during 2021. We keep our fair value interval unchanged at **SEK 5.50 – 8.30 per share**.

Table 1: Financial Overview

MSEK	2 019	2020e	2021e	2022e	2023e
Total revenues	26,8	74,3	152,3	260,7	393,4
Growth (%)	(41,6%)	177,0%	104,8%	71,2%	50,9%
EBITDA	(47,7)	(28,9)	(16,7)	11,1	44,5
EBITDA margin (%)	neg	neg	neg	4,2%	11,3%
EBT	(51,7)	(32,5)	(20,5)	6,7	39,8
Cash holdings	54,2	22,4	7,1	3,7	38,0
Total assets	94,0	68,4	83,5	121,7	200,3
Total equity	60,7	28,2	32,7	39,4	79,2
Solidity (%)	64,6%	41,2%	39,1%	32,4%	39,5%
P/E	neg	neg	neg	46,8	7,9
ROE	neg	neg	neg	17,1%	50,3%
EV/EBIT (x)	neg	neg	neg	39,6	6,8
EV/Sales (x)	10,0	3,6	1,8	1,0	0,7

Source: Västra Hamnen Corporate Finance

Figure 1: Sales, order intake and gross margin



Source: Heliospectra, Västra Hamnen calculations

Strong sales with good margins

Looking at Figure 1 above, it stands clear that the quarter came with mixed results. The revenue for the period exceeded SEK 15 million, which is in parity with some of the strongest sales quarters in the last few years. To top it off, the gross margin is in an upward trend and came in at almost 48 percent. This is highly favorable and might be attributable to the new MITRA light solution. If the gross margin proves to be sustainable at this level, we will have to revise up our forecasted gross margin. As for now, we will leave room for the company to surprise on the upside and leave it unchanged for now.

Slowdown in order intake

The troublesome part of the quarter is the order intake, which came in at SEK 2.5 million. Reasonably, this can be explained by the ongoing pandemic, which abruptly has put many companies' investments to a standstill. The order intake for the quarter is the lowest in the last few years. However, it is worth highlighting that the company is now targeting bigger customers than before, and therefore expects a higher variability in the order intake. Last year, the company announced a breakthrough order from Australian Nectar Farms of SEK 72 million, which has the potential to offset the weaker order intake during Q1.

Preparing for rebound

In the short-run, we have downgraded the company's sales volume, driven by lower customer investments following fears of an incoming recession. The company has strategically increased its inventory during the economic slowdown, with the intention of being able to deliver its products rapidly when the rebound of the economy takes place. The company is also using the time to strengthen its forward-looking focus and intends to be on the top of the customers' minds after the crisis. According to Heliospectra, there has not been any disruptions in the manufacturing of its products, which is comforting in these times.

Long-run effects could be positive

It is still early to say how the ongoing crisis will affect Heliospectra in the long-run. Potentially, the current pandemic has made many countries painfully aware about their lack of independence. This could lead to countries moving towards becoming more self-reliant, which could play in the favor for the agricultural business and solution such as vertical farming. Furthermore, in the long-run we have modelled that Heliospectra will start reaping revenues from the Agtech market segment. This segment is primarily research-driven and normally funded by governmental institutions. It is not unreasonable to believe that this segment will enjoy a boost of interest since many governmental institutions are known to increase its investments when the economy slows down.

Higher sales than expected

When comparing the actual outcome of the quarter with our expectations, it stands clear that the Net Revenue came in significantly higher than we had foreseen. In turn, this made us underestimate the operating costs components by almost SEK 3 million, primarily driven by higher Cost of Goods Sold. The Net Profit came in at SEK 2.5 million higher than our estimate, resulting in the Total Equity being higher than we had anticipated.

Cash reserves affected by tied-up capital

Despite better than expected results, the company's cash reserves still fell short of our estimate by more than SEK 5 million and stood at SEK 34 million at the end of Q1. The reason for underestimating the drain of cash reserves is directly attributable to the working capital. The inventory and receivables together contributed around SEK 7 million to working capital. According to the company, the higher receivables is a consequence of food growers being busier than ever, thus leaving them focusing solely on operations, which in turn has led to longer payment times. In addition, a decrease in payables further exacerbates the tied-up capital in the company. In total, the working capital increased by SEK 12 million, compared to our estimates of SEK 2.5 million.

Table 2: Estimates vs actual, Q1 2020

kSEK	Q1 '19	Q1 '20e	Q1 '20 act	Diff
Net Revenues	9 657	9 730	15 200	5 470
Other Revenues	-	0	50	50
Total Revenues	9 657	9 730	15 250	5 520
Cost of Goods Sold	(5 352)	(5 305)	(7 947)	(2 642)
Personnel Expenses	(6 801)	(7 934)	(9 031)	(1 097)
Other Operating Expenses	(5 986)	(7 141)	(6 250)	891
Total OPEX	(18 139)	(20 380)	(23 228)	(2 848)
EBITDA	(8 482)	(10 650)	(7 978)	2 672
Amortisation and Depreciation	(947)	(834)	(1 079)	(245)
EBIT	(9 429)	(11 484)	(9 057)	2 427
Net Financial Items	(54)	(23)	4	27
EBT	(9 483)	(11 507)	(9 053)	2 454
Net Profit	(9 483)	(11 507)	(9 053)	2 454
Cash and Equivalents	7 979	39 505	33 933	(5 572)
Total Equity	5 753	49 180	51 595	2 415

Source: Västra Hamnen Corporate Finance

Revising our model assumptions

Looking forward, we have slightly increased our expected staff costs since we have underestimated these costs before. However, in Q2, we expect lower staff costs since most of the company's staff is on short-term partial layoff, with the Swedish government subsidizing a big part of the salaries. It is worth highlighting that the short-term layoffs only apply to the employees based in Sweden, and not in North America. We have also lowered the estimates for Other Operating Expenses for 2020, since the travel restrictions and fewer people in the company actually working, makes it reasonable to assume that these costs will be lower in the near future.

Precautionary lowering of sales forecast

We have adjusted our forecasted sales in two steps. First, we have decreased the expected market share in the Food Growers market segment in Q2 and Q3, to reflect that many customers might be cautious with investments in these troublesome times. Secondly, we have postponed the breakthrough order from Nectar Farms by one quarter. According to Heliospectra, Nectar Farms is hit by travel restrictions which have resulted in a delay in project initiation.

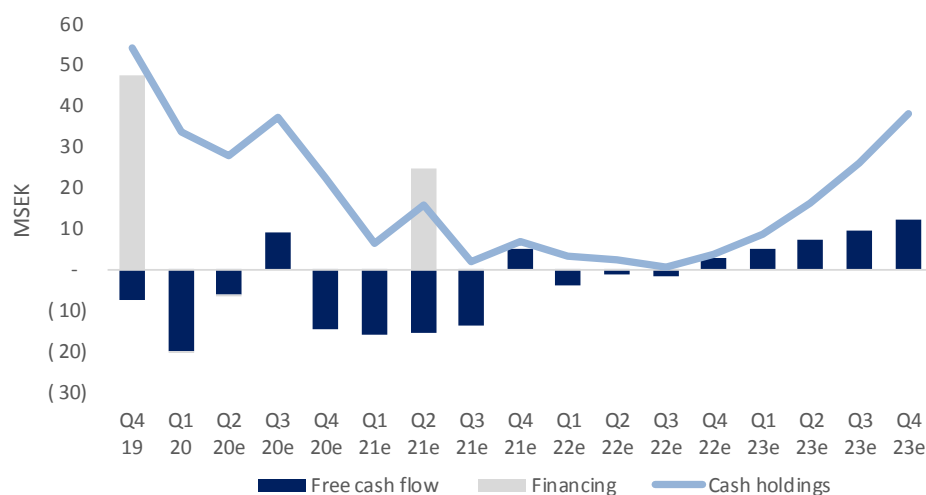
Bigger estimated capital raise

As mentioned above, the cash reserves have been depleted at a higher rate than we had foreseen, and we have postponed the down payment from Nectar Farms by one quarter. This makes us believe that the current cash reserve of SEK 34 million, in combination with the capital increase of SEK 15 million that we estimated in our previous report, might not fully cover the financing needs until the company becomes self-financing with positive cash

flows. To compensate for this, we have increased our forecasted capital raise in 2021 to SEK 25 million.

As can be seen in Figure 2 below, if our economic scenario plays out the cash reserves will bottom out at around mid-2022, and thereafter continuously build up as the company progresses forward. The increase in Free cash flow for Q3 2020e is attributed to a normalization of the working capital in conjunction with the company receiving the first part of the down payment from Nectar Farms in Australia.

Figure 2: Cash flow and cash holdings



Source: Västra Hamnen Corporate Finance

We keep our fair value interval unchanged

Heliospectra is as many other companies affected by the ongoing pandemic. Even though the company says it has yet to lose a single opportunity and that its customers are more committed than ever, it is inevitable that the widespread travel restrictions and sudden halt of investment will affect Heliospectra in the short-run. We have taken precautionary measures in our valuation model by lowering the near-term sales and delaying the blockbuster order from Nectar Farms for another quarter. These changes only have minor implications on our fair value interval and we will keep it unchanged for now. **We therefore reiterate our fair value interval of SEK 5.50 – 8.30 per share.**

Income Statement - Annual Data

kSEK	2018	2019	2020e	2021e	2022e	2023e	2024e	2025e
Net revenues	45 370	25 530	74 296	152 266	260 742	393 420	505 590	589 241
Other revenues	615	1 310	50	-	-	-	-	-
Total revenues	45 985	26 840	74 346	152 266	260 742	393 420	505 590	589 241
Cost of goods sold	(30 057)	(14 555)	(42 816)	(93 017)	(163 030)	(249 332)	(319 896)	(371 143)
Personnel costs	(23 854)	(33 873)	(34 100)	(39 948)	(45 604)	(52 403)	(57 208)	(60 547)
Other external costs	(22 481)	(25 627)	(26 631)	(35 954)	(41 044)	(47 163)	(51 487)	(54 492)
Other operating expenses	(120)	(496)	326	-	-	-	-	-
EBITDA	(30 527)	(47 711)	(28 875)	(16 652)	11 065	44 521	77 000	103 058
Amortisation & depreciation	(2 725)	(3 832)	(3 546)	(3 762)	(4 251)	(4 650)	(4 974)	(5 239)
EBIT	(33 252)	(51 543)	(32 421)	(20 414)	6 813	39 871	72 026	97 819
Financials, net	(52)	(133)	(63)	(90)	(90)	(90)	(90)	(90)
EBT	(33 304)	(51 676)	(32 484)	(20 504)	6 724	39 782	71 936	97 730
Taxes	-	-	-	-	-	-	-	-
Net profit	(33 304)	(51 676)	(32 484)	(20 504)	6 724	39 782	71 936	97 730
Earnings per share (SEK)	(1,30)	(1,11)	(0,59)	(0,35)	0,11	0,66	1,20	1,63
Growth (%)								
Net revenues	na	na	na	na	na	na	na	na
EBITDA	na	na	na	na	na	302,4%	73,0%	33,8%
EBIT	na	na	na	na	na	485,2%	80,6%	35,8%
Net profit	na	na	na	na	na	491,7%	80,8%	35,9%
% of revenues (%)								
EBITDA margin	neg	neg	neg	neg	4,2%	11,3%	15,2%	17,5%
EBIT margin	neg	neg	neg	neg	2,6%	10,1%	14,2%	16,6%
EBT margin	neg	neg	neg	neg	2,6%	10,1%	14,2%	16,6%
Profit margin	neg	neg	neg	neg	2,6%	10,1%	14,2%	16,6%
Personnel costs	52,6%	132,7%	45,9%	26,2%	17,5%	13,3%	11,3%	10,3%
Total OPEX	102,4%	235,0%	81,3%	49,8%	33,2%	25,3%	21,5%	19,5%
Profitability (%)								
ROE	neg	neg	neg	neg	17,1%	50,3%	47,6%	39,3%
ROIC	neg	neg	neg	neg	12,0%	62,6%	113,9%	152,2%
ROCE	neg	neg	neg	neg	11,1%	35,6%	35,4%	29,8%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Annual Data

kSEK	2018	2019	2020e	2021e	2022e	2023e	2024e	2025e
Inventories	5 499	15 931	9 000	18 424	31 963	46 493	56 350	63 820
Short term receivables	6 869	7 150	19 200	37 566	63 466	91 487	111 576	126 822
Cash and cash equivalents	11 165	54 243	22 426	7 085	3 727	38 043	110 362	207 275
Total current assets	23 533	77 324	50 627	63 075	99 156	176 023	278 287	397 917
Tangible assets	1 309	2 125	2 579	3 585	4 404	5 071	5 614	6 057
Intangible assets	15 316	14 548	15 199	16 832	18 161	19 244	20 126	20 845
Total fixed assets	16 625	16 673	17 778	20 416	22 565	24 315	25 741	26 902
Total assets	40 158	93 997	68 405	83 491	121 721	200 339	304 028	424 819
Accounts payable	6 035	-	7 707	16 743	29 345	44 880	57 581	66 806
Short term liabilities	8 566	24 110	23 560	25 114	44 018	67 320	86 372	100 209
Total current liabilities	14 601	24 110	31 267	41 857	73 364	112 199	143 953	167 014
Long term liabilities	9 800	9 200	8 973	8 973	8 973	8 973	8 973	8 973
Other provisions	550	-	-	-	-	-	-	-
Total equity	15 207	60 687	28 164	32 660	39 383	79 165	151 101	248 831
Total equity and liabilities	40 158	93 997	68 404	83 490	121 720	200 338	304 027	424 818

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	2018	2019	2020e	2021e	2022e	2023e	2024e	2025e
Operating activities	(30 359)	(47 776)	(28 980)	(16 742)	10 975	44 432	76 911	102 968
Changes in working capital	4 771	(1 754)	2 038	(17 199)	(7 933)	(3 715)	1 807	345
Investing activities	(3 280)	(4 066)	(4 651)	(6 400)	(6 400)	(6 400)	(6 400)	(6 400)
Financing activities	(600)	96 647	(223)	25 000	-	-	-	-
Cash flow for the period	(29 468)	43 078	(31 817)	(15 342)	(3 358)	34 317	72 318	96 913
Beginning cash balance	40 633	11 165	54 243	22 426	7 085	3 727	38 043	110 362
Ending cash balance	11 165	54 243	22 426	7 085	3 727	38 043	110 362	207 275

Source: Västra Hamnen Corporate Finance

Income Statement - Quarterly Data

kSEK	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020e	Q3 2020e	Q4 2020e
Net revenues	9 657	7 087	6 002	2 784	15 200	17 036	18 699	23 361
Other revenues	-	151	1 009	150	50	-	-	-
Total revenues	9 657	7 238	7 011	2 934	15 250	17 036	18 699	23 361
Cost of goods sold	(5 352)	(3 719)	(3 865)	(1 619)	(7 947)	(10 218)	(10 963)	(13 687)
Personnel costs	(6 801)	(7 891)	(9 629)	(9 552)	(9 031)	(6 750)	(9 023)	(9 296)
Other external costs	(6 036)	(5 845)	(4 815)	(8 931)	(6 576)	(5 400)	(7 218)	(7 437)
Other operating expenses	50	(235)	67	(378)	326	-	-	-
EBITDA	(8 482)	(10 452)	(11 231)	(17 546)	(7 978)	(5 332)	(8 505)	(7 060)
Amortisation & depreciation	(947)	(959)	(970)	(956)	(1 079)	(787)	(823)	(857)
EBIT	(9 429)	(11 411)	(12 201)	(18 502)	(9 057)	(6 119)	(9 328)	(7 917)
Financials, net	(54)	(50)	(18)	(11)	4	(23)	(22)	(22)
EBT	(9 483)	(11 461)	(12 219)	(18 513)	(9 053)	(6 142)	(9 350)	(7 939)
Taxes	-	-	-	-	-	-	-	-
Net profit	(9 483)	(11 461)	(12 219)	(18 513)	(9 053)	(6 142)	(9 350)	(7 939)
Earnings per share (SEK)	(0,27)	(0,24)	(0,26)	(0,33)	(0,16)	(0,11)	(0,17)	(0,14)
Y-o-Y Growth (%)								
Net revenues	na	na	na	na	na	na	na	na
EBITDA	na	na	na	na	na	na	na	na
EBIT	na	na	na	na	na	na	na	na
Net profit	na	na	na	na	na	na	na	na
% of revenues (%)								
EBITDA margin	neg	neg	neg	neg	neg	neg	neg	neg
EBIT margin	neg	neg	neg	neg	neg	neg	neg	neg
EBT margin	neg	neg	neg	neg	neg	neg	neg	neg
Profit margin	neg	neg	neg	neg	neg	neg	neg	neg
Personnel costs	70,4%	111,3%	160,4%	343,1%	59,4%	39,6%	48,3%	39,8%
Total OPEX	132,4%	197,1%	239,5%	677,5%	100,5%	71,3%	86,9%	71,6%
Profitability (%)								
ROE	neg	neg	neg	neg	neg	neg	neg	neg
ROIC	neg	neg	neg	neg	neg	neg	neg	neg
ROCE	neg	neg	neg	neg	neg	neg	neg	neg

Source: Västra Hamnen Corporate Finance

Balance Sheet - Quarterly Data

kSEK	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020e	Q3 2020e	Q4 2020e
Inventories	5 928	11 939	11 010	15 931	13 029	6 719	7 209	9 000
Short term receivables	7 799	12 817	12 370	7 150	17 009	14 002	15 369	19 200
Cash and cash equivalents	7 979	29 047	13 863	54 243	33 933	27 891	37 201	22 426
Total current assets	21 706	53 803	37 243	77 324	63 971	48 612	59 778	50 627
Tangible assets	1 242	1 229	1 340	2 125	2 010	2 210	2 399	2 579
Intangible assets	15 134	14 668	14 865	14 548	13 735	14 248	14 736	15 199
Total fixed assets	16 376	15 897	16 205	16 673	15 745	16 458	17 135	17 778
Total assets	38 082	69 700	53 448	93 997	79 716	65 069	76 913	68 405
Accounts payable	-	16 371	12 653	-	-	4 257	5 535	7 707
Short term liabilities	12 802	-	-	24 110	19 070	6 385	26 302	23 560
Total current liabilities	12 802	16 371	12 653	24 110	19 070	10 642	31 836	31 267
Long term liabilities	19 527	9 550	9 350	9 200	9 050	8 973	8 973	8 973
Other provisions	-	-	-	-	-	-	-	-
Total equity	5 753	43 776	31 446	60 687	51 595	45 453	36 103	28 164
Total equity and liabilities	38 082	69 697	53 449	93 997	79 715	65 068	76 912	68 404

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020e	Q3 2020e	Q4 2020e
Operating activities	(8 507)	(10 453)	(11 204)	(17 612)	(8 016)	(5 355)	(8 527)	(7 083)
Changes in working capital	(3 720)	(7 460)	(2 342)	11 768	(11 997)	889	19 337	(6 192)
Investing activities	(686)	(480)	(1 280)	(1 435)	(151)	(1 500)	(1 500)	(1 500)
Financing activities	9 727	39 461	(358)	47 659	(146)	(77)	-	-
Cash flow for the period	(3 186)	21 068	(15 184)	40 380	(20 310)	(6 042)	9 310	(14 774)
Beginning cash balance	11 165	7 979	29 047	13 863	54 243	33 933	27 891	37 201
Ending cash balance	7 979	29 047	13 863	54 243	33 933	27 891	37 201	22 426

Source: Västra Hamnen Corporate Finance

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Västra Hamnen Corporate Finance AB

Jungmansgatan 12
211 11 Malmö
Telefon: +46 40 200 250
E-post: info@vhcorp.se
www.vhcorp.se

