Energy Save

Sector: Clean tech

Accelerates the business plan

Redeye updates its view on Energy Save after the Q3 2022/2023 report. The report showed strong growth and profitability levels, as expected. However, the report came in lower than our expectations due to higher seasonal effects than previously anticipated.

157% y/y growth in Q3

Net sales grew 157% y/y and came in at SEK87.4m, which was lower than anticipated due to higher seasonal effects than expected, partly in the residential segment. Furthermore, the ratio between gas and electricity was very favorable for heat pumps in the previous quarter (Q2 2022/2023), indicating a shortened payback time, likely resulting in a pent-up demand in Q2 2022/2023, negatively affecting orders in Q3 2022/2023 and to some extent also in Q4 2022/2023e.

Accelerates the business plan

The recent capital injection enables the company to accelerate its business plan. The investments will be used to double its production capacity, scale up its OEM scope and establish local footprints in Germany and the UK, two strategically important markets.

New base case at SEK240 (255)

On the back of the Q3 22/23e report, we trim our EBIT estimate for 2022/2023e but leave our estimates for 2023/2024e-2024/2025e largely intact due to higher production capacity, scaling up its OEM scope and new market entries. Furthermore, we have raised our Wacc from 10% to 10.5% due to higher interest rates.

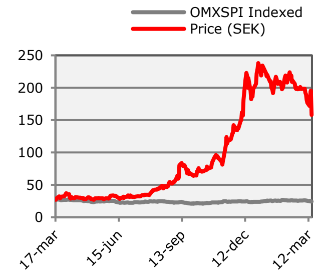
Our new base case stands at SEK240 (255), which we derive from a DCF and earnings multiple approach. At our base case, Energy Save would trade at 18x EV/EBIT (23/24e), which implies a discount of ~15% versus key peers.

Key Financials (SEKm)	2021	2022/23E	2023/24E	2024/25E
Net sales	108	328	564	726
Net Sales growth	95%	204%	72%	29%
EBITDA	1	58	110	144
EBIT	-2.1	52.8	90.7	119.5
EBIT Margin (%)	-2%	16%	16%	16%
Net Income	-2.8	41.2	71.2	94.0
EV/S	1.3	2.5	1.5	1.1
EV/EBIT	neg	15.4	9.6	6.6
P/E	neg	25.2	14.5	11.0

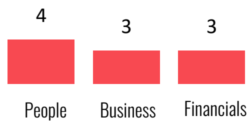
FAIR VALUE RANGE

BEAR	BASE	BULL
140	**240**	335

ESGR VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	ESGR B
Market	Spotlight
Share Price (SEK)	155
Market Cap (SEKm)	1,033
Net Debt 2023E (SEKm)	-164
Free Float (%)	17%
Avg. daily volume ('000)	1,000

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Q3 '2022/2023 - Review

The Q3 22/23 report once again showed solid growth, where net sales grew 157% y/y, while the EBIT margin reached 16.4% (1). However, this was somewhat lower than our expectations, partly explained by higher seasonal effects than previously expected.

Deviation table:

Energy Save deviation table SEKm	Q3 21/22	Q3 22/23A	Q3 22/23e	Diff absolute	Diff %
Net Sales	**34.1**	**87.4**	**115.8**	**-28.4**	**-25%**
Residential	24.9	*68.9*	83.5	*-14.6*	-17%
Commercial	8.6	*17.7*	31.5	*-13.8*	-44%
Other	0.5	*0.8*	0.8	*0.0*	-3%
Other income	*0.6*	*-0.2*	*0.0*	-0.2	
Total Revenue	***34.7***	***87.2***	***115.8***	**-28.6**	-25%
COGS	-26.4	-59.9	-80.8	20.9	-26%
Gross Profit	8.3	27.3	35.0	-7.6	-22%
Own capitalization	1.2	1.3	1.3	0.0	-1%
Other external expenses	-3.9	-7.0	-7.8	0.7	-9%
Personnel expenses	-4.2	-6.0	-5.8	-0.2	4%
Other expenditures	0	0.0	0.0	0.0	
Total Opex	**-6.8**	**-11.8**	**-12.3**	**0.5**	**-4%**
EBITDA	**1.4**	**15.5**	**22.7**	**-7.2**	**-32%**
D&A	-1.1	-1.2	-1.6	0.4	-24%
EBIT	**0.3**	**14.3**	**21.1**	**-6.8**	**-32%**
KPI's					
Net sales Y/Y %	133%	157%	240%		
Net sales Q/Q %	15%	-20%	5%		
Gross margin %	22.4%	31.5%	30.2%		
EBITDA margin %	4.1%	17.8%	19.6%		
EBIT margin %	*1.0%*	*16.4%*	*18.2%*		

Source: Redeye research

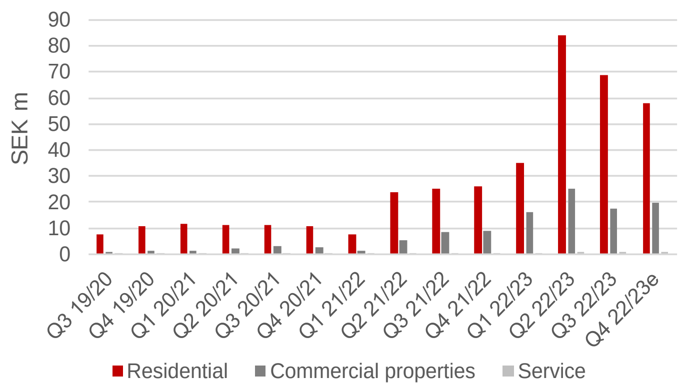
Net sales came in at SEK87.4m (34.1), equivalent to a y/y growth of 157%. Sales from residential came in at SEK68.9m (24.9), while the commercial properties contributed with SEK17.7m (8.6), and services accounted for SEK0.8m (0.5). In total, net sales came in at SEK-28m below our estimates.

The seasonal effects are primarily within the Residential segment, where end customers place large orders ahead of the winter season. Furthermore, given the large discrepancy between gas and electricity during the autumn (further discussed below), the payback time for investing in heat pumps were unusually low. Thus, we believe there could have been some pent-up demand in Q2 2022/2023, where some customers placed larger orders, which negatively affected orders in Q3 2022/2023, especially since the winter was mild across Europe.

On a regional basis, Europe accounted for 44% of net sales, down from 58% in Q2 2022/2023. As commercial heat pump systems' penetration is lower across Europe, the tilt towards the residential segment is even larger in Europe. Thus, we have the impression that the residential segment dragged down Europe's net sales during the quarter.

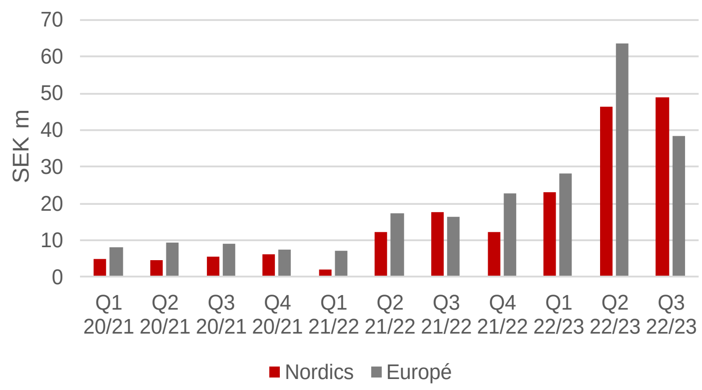
Management states that the demand will be slightly lower in Q4 2022/2023e versus Q3 2022/2023. As such, we expect net sales to decline sequentially in Q4 2022/2023. We still expect net sales to increase 125% in Q4 2022/2023, supported by first-placed orders from The UK and Germany.

Energy Save: Net Sales per segment



Source: Redeye Research

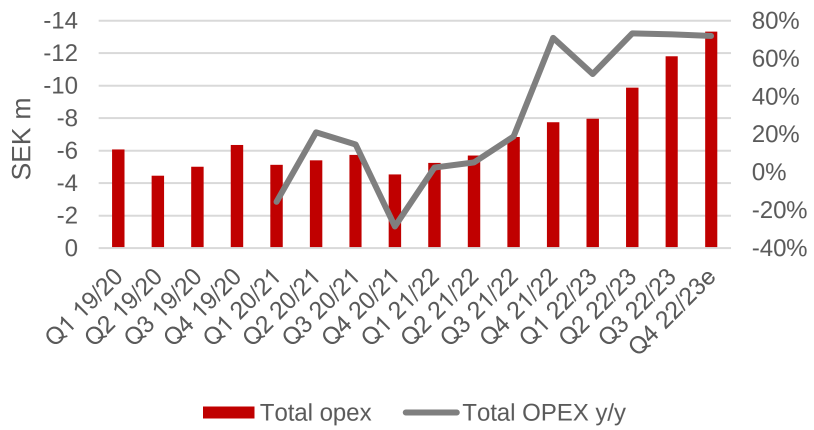
Energy Save: Net Sales per region



Source: Redeye Research

Total Opex came in at SEK-11.8m, slightly lower than our estimates of SEK-12.3m. The company is investing for future growth and hired six new employees during the quarter, where five started in the last month of the quarter, January. Moreover, the company is increasing its marketing activities to capitalize on the growing market, explaining the 72% increase y/y.

Energy Save: Total Opex and growth %



Source: Redeye Research

EBIT came in at SEK14.3m (0.3) in Q4 2022/2023 and reached an EBIT margin of 16.4% (1). The great annual improvement was driven by higher volume, enhanced gross margin, and solid cost control. However, this was below our estimate of SEK21.1m, partly due to lower sales volume than expected.

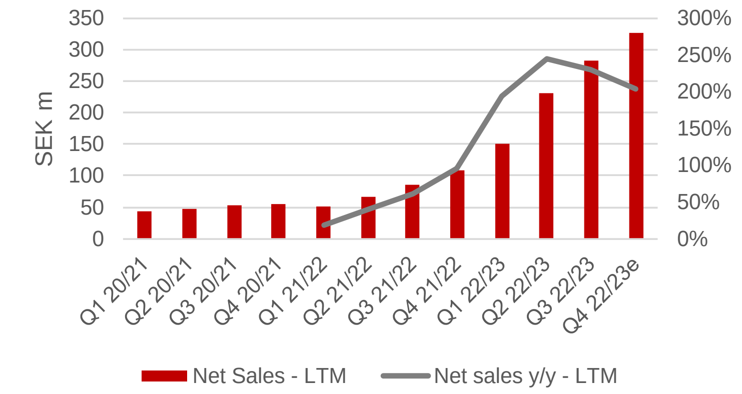
Cash flow was weak in the quarter, harmed by negative working capital movement, primarily from inventory build-up. In total, operating cash flow came in at SEK1.3m, for a cash conversion of a meager 8%.

LTM Financials

Given that Energy Save is still exposed to seasonal fluctuations, we argue investors should pay close attention to the finances on a rolling twelve months basis.

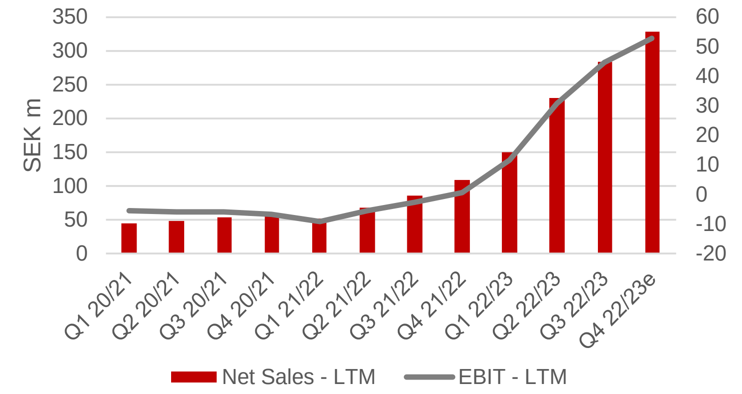
On an LTM basis, net sales reached SEK284m, growing 229% y/y. Yielding an EBIT of SEK44.6m, corresponding to a margin of 15.8% (-3). Illustrating the lean business model from its partner-based business model. Thus, we argue this is a bump in the road and that the seasonal fluctuations will decrease as the company grows over time.

Energy Save: Net sales and growth y/y% - LTM



Source: Redeye Research

Energy Save: Net Sales(LHS) and EBIT(RHS) LTM



Source: Redeye Research

Directed issue of SEK151.2m accelerates the business plan

On the 14th of February, Energy Save completed a directed issue of SEK151.2m. The proceeds will be used to accelerate its growth agenda to further gain market share in the structurally growing market for heat pumps.

The directed issue was completed at SEK205 per share. The total outstanding shares will increase from 5.802m to 6.539m, equivalent to a dilution effect of 12.7%. Participated investors were Nordea Småbolagsfond Norden, Handelsbanken Fonder, Didner & Gerge Fonder AB, Fondita, Ålandsbanken Fonder, Swedbank Robur, Carnegie Fonder, and Sniptind.

The capital injection will primarily be used to accelerate its growth agenda, strengthen its supply chain operations, production capacity, and R&D facilities, and establish a local presence in the fast-growing UK and German markets. Potential M&A opportunities are also on the table. Energy Save aims to outgrow the underlying market with healthy profitability levels, and this offensive capital injection strengthens the opportunity.

Since 2009, Energy Save has outsourced its production with its Chinese partner Amitime and established a trustworthy relationship. The local presence in China enables shorter lead times and sourcing for crucial components, enhancing its supply chain visibility. The fact is that Energy Save has not been affected by component shortages and supply chain constraints to the same extent as major competitors.

Currently, the annual production is around 120,000 sets. However, with the fresh funding, a part of the gross proceeds will flow into investments in its supply chain. The production capacity is planned to double from October 2023, enabling an annual production of c240,000 sets. Furthermore, the vast majority of the air/water heat pumps are currently produced in Asia, which is expected to persist until 2025e, when new plants are fully up and running. Thus, the increased production capacity will enable Energy Save to grasp further market share.

Energy Save already has an established private/white-label function through partnerships with Swegon and Milton Megatherm. However, this is still a small fraction of its total business. Energy Save could scale up the OEM business scope by offering customers and partners private label, OEM, and ODM solutions through further investments in production facilities and supply chain operations. As the market for heat pumps is expected to grow significantly until 2030, many new brands and players are entering the market.

Thus, Energy Save could capitalize on this trend by offering OEM (Design & specifications by customer) and ODM (Industrial design by customer) solutions for these players, creating parallel growth curves simultaneously with its existing business.

The annual production capacity of c240,000 indicates that it could take on several objects as there are still no bottlenecks in its current production facility, which currently could produce c120,000 sets per year.

Founders are selling shares worth SEK127.5m

In accordance with the directed share issue in February, the two founders, Fredrik Sävenstrand and Christian Gulbrandsen, as well as the co-founder Annette Wallén sold shares worth cSEK127.5m to institutional investors. Both Fredrik Sävenstrand (CEO) and Christian Gulbrandsen sold c299k shares each, approximately 25% of its holdings. The two founders will remain the two largest owners and still control c74% of the outstanding votes. In addition, the three sellers entered into a lock-up agreement of not selling any shares within 18 months. Given that the founders still hold a significant portion of the shares, we are not too worried about this transaction.

Change of listing

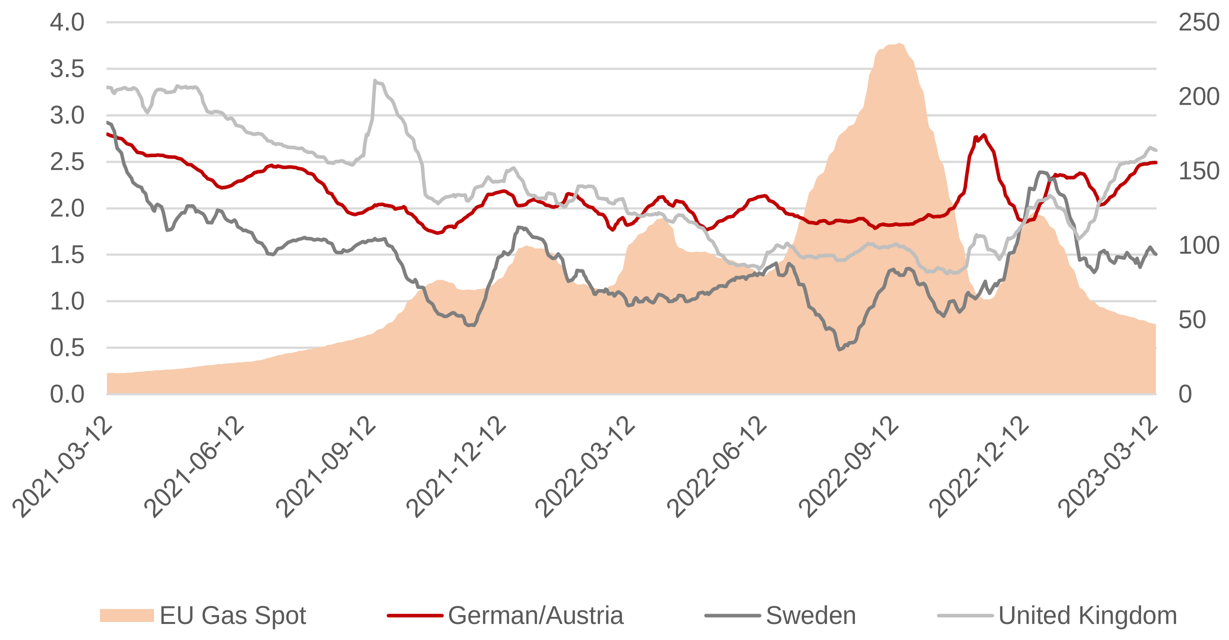
The company also hinted that it is evaluating the possibilities of changing from the Spotlight market to Nasdaq First North. Something that could increase the awareness of the company as well as enhance the liquidity in the share.

Market tailwinds

Given the recent electricity crisis, the alternative costs for installing heat pumps have been reduced. As such, the payback time for investing in heat pumps has shortened. In addition, EUs green deal and RePowerEU initiatives imply that the European Union's transition towards green energy has accelerated and that several subsidies are initiated across Europe to support the acceleration.

However, the recent setback in gas prices has narrowed the gap between electricity and gas, making heat pumps somewhat less attractive from a financial perspective (more normal payback time) and thus holding back the exceptional demand in the short term. The beneficial gas/electricity relation and a seasonally strong quarter created unique conditions in Q3'2022 (Energy Save's Q2'2022/23e). However, despite the recent setback, we believe the long-term outlook for heat pumps is intact and that the structural shift towards renewable energy is too strong that it will compensate for the lower price ratio between gas and electricity.

Electricity to Gas for different markets - Ratio (LHS) Price (RHS)



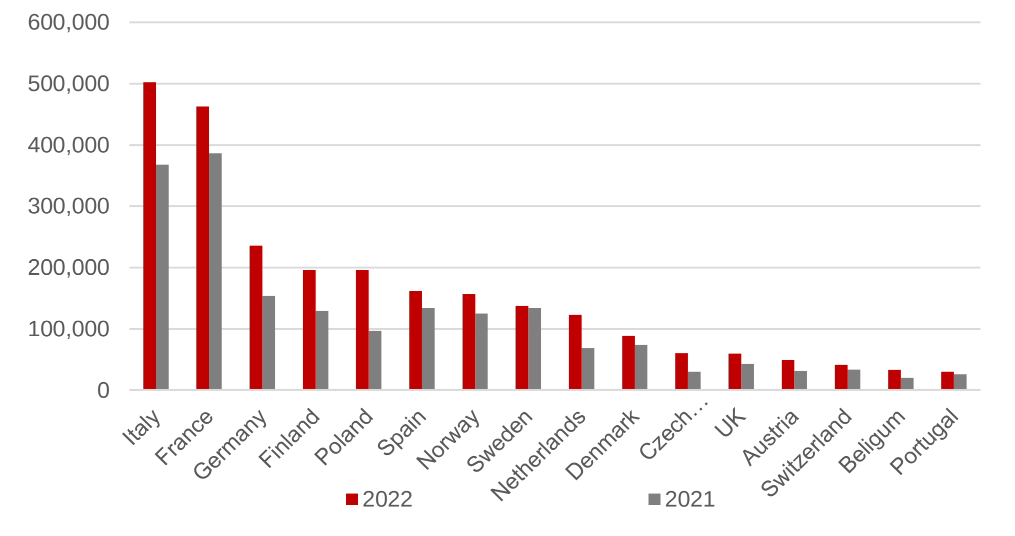
Source: FactSet, Redeye Research

Three million units sold in 2022 across Europe

The European heat pump market saw strong growth in 2022. In total, c3m units were sold across the EU, which equals a growth of c38% y/y and indicates an installed base of c20m, according to EHPA. Italy, France, and Germany were the largest countries in terms of sold units. The number of sold units in Italy, France, and Germany reached c502k (37% y/y), 463k (20% y/y), and c236k (53% y/y), respectively. Note that these markets represented approximately 46% of all sold units across the EU in 2022.

The countries that saw the strongest annual growth in 2022 versus 2021 were Poland (102%), Czech Republic (99%), and the Netherlands (80%). For Energy Save, Czech Republic has been one of the strongest markets so far in 2022/2023e.

Energy Save: Sold units per country

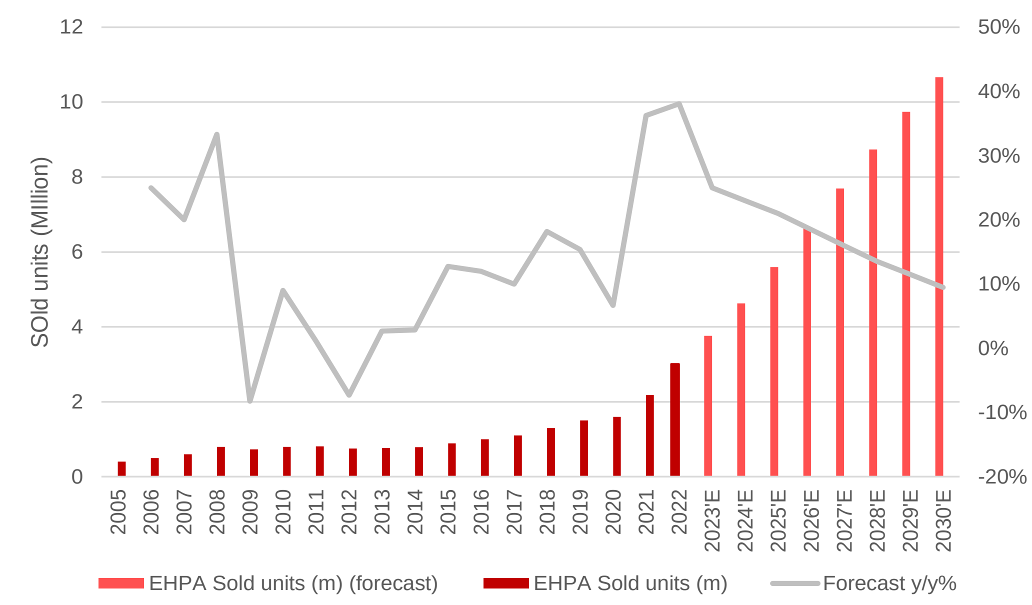


Source: Redeye research, EHPA

According to SKVP (Svenska Kyl & Värmepumpföreningen), the Swedish market grew by 3% in 2022, where geothermal and air/water heat pumps were the strongest growth drivers. However, according to SKVP, sold units in commercial properties remained flat y/y versus 2021 but increased 18% in Q4'22. Indicates that there is room for growth and a potential acceleration could be on the way.

Given EUs RePowerEU initiatives, EHPA now estimates that the installed number of heat pumps will increase from today's levels of c19.5m to c60m in 2030. Indicating a CAGR of c15%. Further supported by a low renovation rate for commercial properties. According to EU's climate objectives and energy efficiency, 65% of commercial properties should be based on green electricity by 2030. Supporting the long-term need for heat pumps.

EHPA: Sold units in EU per year and growth %



Source: EHPA, Redeye research

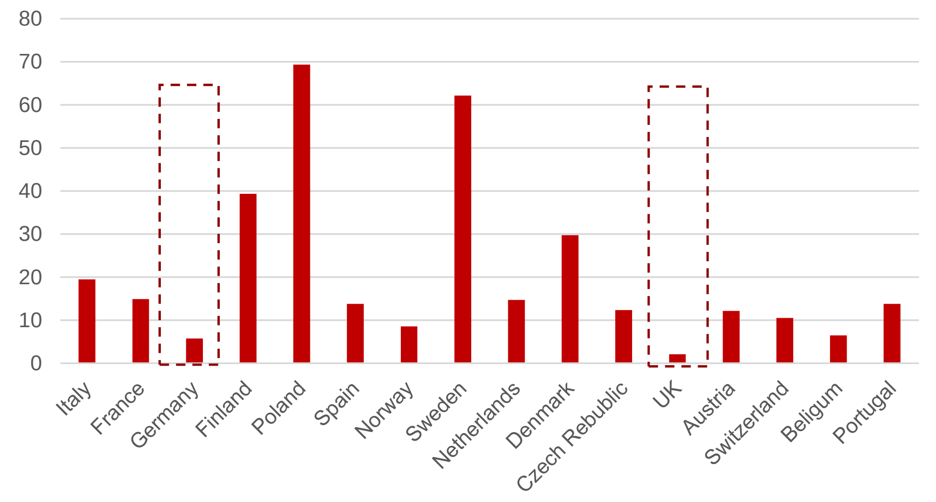
On a positive note, EHPA has stated that some of the key drivers for delivering on the required targets will be air/water technology, hybrid technology, prefabrication, and digitalization. All key drivers put Energy Save in a sweet spot for capitalizing on the growing market and should support long-term growth. However, there are still challenges, and steep changes in current electricity prices, lack of subsidies, capacity, and supply chain constraints could hold back growth.

Germany and The UK – Two strategic markets

Germany and the United Kingdom are two large countries where heat pump penetration is still very low. These two countries could be important strategic markets for Energy Save, and the company is planning to increase its local footprint in these markets to grasp market share. Furthermore, the air/water technique is likely to be preferred in those countries since buildings already have water installed from previous gas boilers.

The graph below illustrates the number of sold heat pumps per 1,000 households across European countries, which could be a proxy for the penetration of heat pumps in each country. The graph below shows that the Nordic countries have the highest penetration while Germany and the UK have the lowest penetration across Europe. Indicating vast opportunities in those markets.

Energy Save: Heat pump sold per 1,000 household



Source: Redeye research, EHPA

The market grew 53% in Germany in 2022, and c236k heat pumps were sold. Interesting to see is that 205k was based on the air/water technique. Germany targets to install 500k heat pumps annually from 2024 onwards, suggesting further potential.

Energy Save recently entered the German market through its strategic partnership with EC Powers A/S, a leading manufacturer of small-scale cogeneration units for the European market. EC Power is the market leader in its niche regarding small-scale cogeneration units ranging from 3-80kW. Since 1996, EC Power has sold +14,000 units across Europe.

The partnership will combine Energy Save's heat pump solutions and EC Powers cogeneration technique and integrate those into one common product. Yielding substantial CO2 savings for end customers. Initially, the partnership covers the entire German market, but some geographic expansion is expected. Positively, the partnership leverages EC Powers' existing network of installers and distributors, which could accelerate the sales process.

Furthermore, from 2024 it will be mandatory for cogeneration to incorporate heat pump systems in order to be able to sell the solution. Something that further will drive the acceleration of heat pumps in Germany. The first deliveries will be shipped in Q4 2022/2023e.

UK Market

Energy Save recently partnered with the UK distributor/installer Modutherm Ltd. At first glance, it seems to be within the commercial segment primarily. There are vast opportunities in the UK, but given its old infrastructure, there could be some risks that the adoption rate is lagging. It seems that the first deliveries started in February, which should support revenues from Q4'2022/2023e and onwards.

The UK is the market with the lowest adoption rate of heat pumps across Europe. To address this issue, the UK government has the ambition to install 600,000 heat pumps annually by 2028 versus 60,000 installed heat pumps in 2022. Thus, some argue that further subsidies, smoother application processes for accessing grants, and additional encouragement regarding renewable energy are required to address this low adoption rate.

Estimate changes

On the back of the Q3 2022/2023 report, we reduce EBIT from SEK72m to SEK53m, primarily due to lower sales volume, which is somewhat compensated by a stronger gross margin and lower opex than previously anticipated.

For 2023/2024e-2024e-2025e, we make minor adjustments. In total, we reduce EBIT from SEK94m to SEK91m in 2023/2024e and from SEK120m to SEK119m in 2024/2025e. The outlook for 2023/2024e-2024/2025e is supported by stronger sales volume from increased production capacity, scaling up the OEM/ODM scope, and entering new countries. However, EBIT is harmed by higher capitalization from increased investments in expanded production facilities (Investment of cSEK70m).

Year	New estimates			Old estimates			Diff %		
SEK m	2022/23'e	2023/24'e	2024/25'e	2022/23'e	2023/24'e	2024/25'e	2022/23'e	2023/24'e	2024/25'e
Net Sales	**327.6**	**564.1**	**726.4**	**401.6**	**505.9**	**622.7**	**-18.4%**	**11.5%**	**16.7%**
Other income	-2.3	0.0	0.0	-2.1	0.0	0.0	9.2%	n.a	n.a
Total Revenue	325.3	564.1	726.4	399.5	505.9	622.7	-18.6%	11.5%	16.7%
COGS	-224.6	-385.3	-494.7	-277.8	-348.5	-427.8	-19.1%	10.6%	15.6%
Gross profit	100.7	178.8	231.7	121.7	157.3	194.9	-17.3%	13.7%	18.9%
Gross margin, %	31.4%	31.7%	31.9%	30.8%	31.1%	31.3%			
Capitalised development	4.7	6.8	8.0	4.7	5.6	7.5	-1.0%	21.7%	6.9%
Other external expenses	-25.7	-39.5	-50.1	-27.4	-34.9	-39.8	-6.4%	13.1%	25.8%
Personnel expenses	-22.1	-35.7	-46.1	-21.3	-27.4	-34.0	3.6%	30.1%	35.6%
Other expenditures	0.0	0.0	0.0	0.0	0.0	0.0	n.a	n.a	n.a
Total opex	**-43.1**	**-68.4**	**-88.2**	**-44.0**	**-56.8**	**-66.4**	**-2.1%**	**20.5%**	**33.0%**
EBITDA	**57.6**	**110.4**	**143.5**	**77.7**	**100.6**	**128.5**	**-25.9%**	**9.8%**	**11.7%**
EBITDA-margin	17.6%	19.6%	19.8%	19.3%	19.9%	20.6%			
D&A	-4.8	-19.7	-24.0	-5.5	-7.1	-8.7	-13.2%	178.8%	175.0%
EBIT	**52.8**	**90.7**	**119.5**	**72.1**	**93.5**	**119.8**	**-26.8%**	**-3.0%**	**-0.2%**
EBIT-margin	16.1%	16.1%	16.5%	18.0%	18.5%	19.2%			
Net finance	-0.9	-0.6	-0.6	-1.0	-1.1	-1.1	-8.4%	-41.5%	-46.7%
PTP	**51.8**	**90.1**	**119.0**	**71.1**	**92.4**	**118.8**	**-27.1%**	**-2.6%**	**0.2%**
tax	-10.8	-18.9	-25.0	-16.6	-19.4	-24.9	-35.3%	-2.6%	0.2%
Net Income	**41.1**	**71.2**	**94.0**	**54.4**	**73.0**	**93.8**	**-24.6%**	**-2.6%**	**0.2%**
EPS	**6.31**	**10.88**	**14.37**	**8.33**	**11.17**	**14.35**	**-24.3%**	**-2.6%**	**0.2%**

Source: Redeye research

Financials

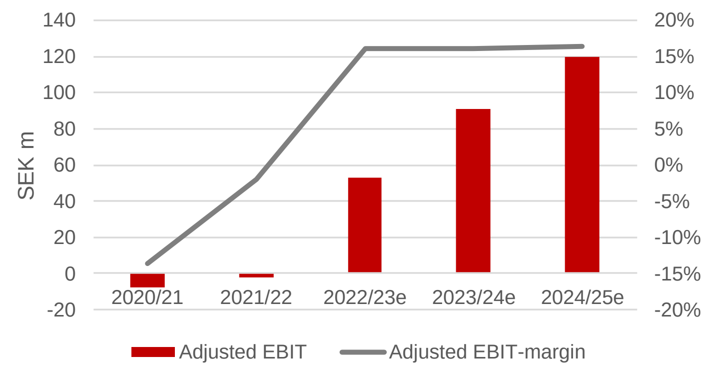
Energy Save targets to outgrow the market with healthy profitability levels. We argue Energy Save is well placed to continue to outgrow the market due to its air/water exposure, prefabrication, and digital offering, which reduces lead time and lowers the investment threshold. We also argue that further subsidies are required across the EU to fulfill the ambitious target of reaching an installed base of 60m heat pumps by 2030.

We now forecast sales to reach SEK328m in 2022/2023e, followed by SEK564m and SEK726m in 2023/2024e and 2024/2025e. We estimate the commercial segment to grow fastest in relative terms as the commercial properties are lagging behind the residential segment across Europe. However, this is likely to catch up going forward, and the potential within the commercial segment is immense. As such, we estimate the commercial segments' ratio of sales to increase from 24% in 2022/2023e to 30% in 2024/2025e.

Furthermore, the commercial segment is the one with less competition, especially within temporary objects, and we expect its flexible solutions to be a competitive advantage.

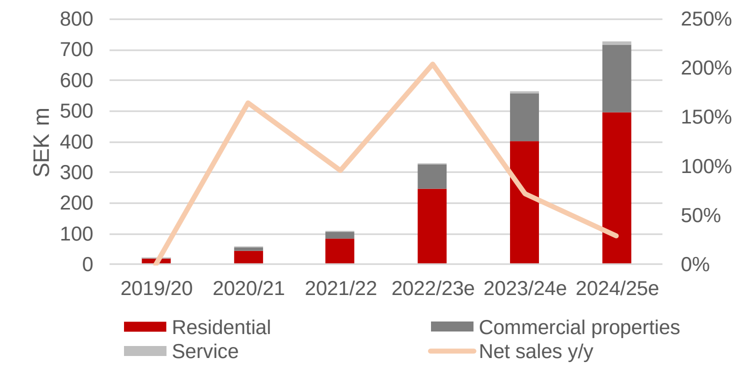
Energy Save continues to invest in its organization, and the recent capital injection enables improved visibility in its production facility (which will increase D&A), hiring key personnel on important strategic markets, and further investments in its digital offering. Thus, we expect the EBIT margin to reach 16.1% in 2022/2023e, 16.1% in 2023/2024e, and 16.5% in 2024/2025e. Optionality on the upside could be from stronger gross margins due to higher scalability and enhanced mix effects. Despite that, we still estimate EBIT to grow 72% in 2023/2024e and 32% in 2024/2025e.

Energy Save: EBIT and EBIT margin %



Source: Redeye Research

Energy Save: Net sales per segment and growth %



Source: Redeye Research

P&L Table and KPI's

Year	2021/22				2022/23								
SEK m	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4'e	2020/21	2021/22	2022/23'e	2023/24'e	2024/25'e
Net Sales	**9.0**	**29.6**	**34.1**	**35.1**	**51.4**	**109.9**	**87.4**	**78.9**	**55.1**	**107.7**	**327.6**	**564.1**	**726.4**
Other income	0.2	0.5	0.6	1.5	0.3	-2.4	-0.2	0.0	0.0	0.0	-2.3	0.0	0.0
Total Revenue	9.2	30.0	34.7	36.6	51.7	107.5	87.2	78.9	55.1	107.7	325.3	564.1	726.4
COGS	-7.4	-21.6	-26.4	-25.7	-35.5	-75.2	-59.9	-54.0	-40.4	-81.2	-224.6	-385.3	-494.7
Gross profit	1.8	8.4	8.3	10.9	16.2	32.3	27.3	24.8	14.6	26.5	100.7	178.8	231.7
Gross margin, %	17.3%	26.9%	22.4%	26.7%	30.8%	31.6%	31.5%	31.5%	26.6%	24.6%	31.4%	31.7%	31.9%
Capitalised development	0.7	0.6	1.2	1.1	0.8	1.3	1.2	1.2	3.7	3.7	4.7	6.8	8.0
Other external expenses	-2.5	-3.5	-3.9	-4.7	-4.5	-6.6	-7.0	-7.6	-12.6	-14.6	-25.7	-39.5	-50.1
Personnel expenses	-3.5	-2.9	-4.2	-4.2	-4.3	-4.7	-6.0	-7.1	-11.9	-14.6	-22.1	-35.7	-46.1
Other expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total opex	**-5.3**	**-5.7**	**-6.8**	**-7.7**	**-8.0**	**-9.9**	**-11.8**	**-13.4**	**-20.8**	**-25.5**	**-43.1**	**-68.4**	**-88.2**
EBITDA	**-3.5**	**2.7**	**1.4**	**3.1**	**8.2**	**22.4**	**15.5**	**11.4**	**-6.2**	**1.0**	**57.6**	**110.4**	**143.5**
EBITDA-margin	-38.7%	9.2%	4.2%	8.9%	16.0%	20.4%	17.8%	14.5%	-11.2%	0.9%	17.6%	19.6%	19.8%
D&A	-0.3	-0.6	-1.1	-1.1	-1.2	-1.2	-1.2	-1.3	-1.3	-3.1	-4.8	-19.7	-24.0
EBIT	**-3.8**	**2.1**	**0.3**	**2.0**	**7.0**	**21.3**	**14.3**	**10.2**	**-7.5**	**-2.1**	**52.8**	**90.7**	**119.5**
EBIT-margin	-42.5%	7.2%	1.0%	5.8%	13.7%	19.3%	16.4%	12.9%	-13.6%	-2.0%	16.1%	16.1%	16.5%
Net finance	-0.1	-0.2	-0.2	-0.2	-0.3	-0.3	-0.2	-0.2	-0.9	-0.7	-0.9	-0.6	-0.6
PTP	**-3.9**	**1.9**	**0.2**	**1.8**	**6.8**	**21.0**	**14.1**	**9.9**	**-8.4**	**-2.8**	**51.8**	**90.1**	**119.0**
tax	0.0	0.0	0.0	0.0	0.0	-5.4	-3.1	-2.2	0.0	0.0	-10.8	-18.9	-25.0
Net Income	**-3.9**	**1.9**	**0.2**	**1.8**	**6.8**	**15.6**	**11.0**	**7.7**	**-8.4**	**-2.8**	**41.1**	**71.2**	**94.0**
EPS	**-0.82**	**0.40**	**0.03**	**0.32**	**1.17**	**2.68**	**1.90**	**1.20**	**-2.12**	**-0.49**	**6.31**	**10.88**	**14.37**
Growth %													
Net Sales y/y	-31%	112%	133%	159%	472%	272%	157%	125%	165%	95%	204%	72%	29%
Net Sales q/q	-34%	229%	15%	3%	46%	114%	-20%	-10%					
EBITDA y/y	151%	-367%	-159%	-445%	-336%	725%	994%	266%	-76%	-116%	5842%	92%	30%
EBIT y/y	165%	-237%	-113%	-252%	-284%	897%	3997%	402%	-72%	-72%	-2581%	72%	32%
Net Income y/y	150%	-196%	-106%	-204%	-272%	706%	6709%	324%	-70%	-66%	-1547%	73%	32%
EPS y/y									n.a	n.a	n.a	73%	32%
Other external expenses	1%	20%	12%	28%	81%	89%	79%	60%	4%	16%	76%	54%	27%
Personnel expenses y/y	29%	-27%	31%	93%	24%	62%	45%	71%	-18%	23%	51%	62%	29%
Total opex y/y	**2%**	**5%**	**19%**	**71%**	**52%**	**73%**	**73%**	**73%**	**-5%**	**23%**	**69%**	**59%**	**29%**
Margins													
Gross margin %	17.3%	26.9%	22.4%	26.7%	30.8%	31.6%	31.5%	31.5%	26.6%	24.6%	31.4%	31.7%	31.9%
EBITDA margin %	-37.8%	9.1%	4.1%	8.5%	15.9%	20.9%	17.8%	14.5%	-11.2%	0.9%	17.7%	19.6%	19.8%
EBIT margin %	-41.5%	7.1%	1.0%	5.5%	13.6%	19.8%	16.4%	12.9%	-13.6%	-2.0%	16.2%	16.1%	16.5%
Net margin %	-42.9%	6.4%	0.5%	5.0%	13.1%	14.5%	12.6%	9.8%	-15.3%	-2.6%	12.6%	12.6%	12.9%

Source: Redeye research

Valuation

Peer Valuation

Some ESG-related stocks have seen a steep multiple expansion in recent years, especially Nibe, Beijer Ref, Garo, and Tomra. We deem Nibe, Beijer Ref, Systemair, and Nederman as key peers for Energy Save. These key peers trade at a median EV/EBIT multiple of 20.6x-18.7x in 2023-2024e. Despite a stronger growth outlook and similar margin profile, Energy Save still trades at a clear discount (50% on EV/EBIT'2023e). However, we argue that a discount versus key peers is warranted because peers have a long history of strong financial performance but believe the discount should narrow over time as the company grows.

Company name	EV SEKm	EV/S 2022	EV/S 2023	EV/S 2024	EV/EBITDA 2022	EV/EBITDA 2023	EV/EBITDA 2024	EV/EBIT 2022	EV/EBIT 2023	EV/EBIT 2024	Sales growth 2022	Sales growth 2023	Sales growth 2024
Nordic													
Nibe	215,304	5.4x	4.6x	4.2x	29.5x	24.6x	22.1x	37.2x	30.9x	27.8x	30%	17%	10%
Lindab	14,503	1.2x	1.2x	1.2x	8.0x	9.1x	8.2x	10.8x	13.3x	11.5x	26%	0%	0%
Qlean Air	490	1.1x	1.0x	0.9x	6.1x	4.8x	4.2x	9.8x	6.9x	5.6x	1%	10%	9%
Nederman	7,372	1.4x	1.3x	1.3x	10.7x	9.9x	9.0x	15.1x	13.5x	11.9x	28%	8%	2%
Systemair	19,772	1.6x	1.6x	1.5x	11.9x	12.3x	11.4x	17.5x	16.1x	14.9x	23%	3%	4%
Beijer Ref	75,991	3.4x	2.5x	2.3x	29.8x	19.4x	17.7x	38.4x	25.1x	22.4x	34%	36%	9%
Garo	4,200	3.0x	2.8x	2.4x	21.6x	17.3x	12.5x	25.8x	20.9x	14.5x	7%	7%	17%
Munters	21,005	2.0x	1.7x	1.4x	16.2x	11.6x	8.8x	22.5x	15.3x	11.1x	41%	20%	19%
Tomra	49,491	4.0x	3.7x	3.4x	20.9x	18.2x	16.0x	33.4x	27.7x	23.4x	7%	8%	9%
Orsted	431,730	2.1x	2.9x	2.7x	8.8x	12.4x	10.7x	14.3x	23.0x	18.7x	92%	-27%	6%
Median		**2.1x**	**2.1x**	**1.9x**	**14.0x**	**12.3x**	**11.1x**	**20.0x**	**18.5x**	**14.7x**	**26.9%**	**8.2%**	**8.9%**
International													
Thermon Group	9,510	2.1x	2.0x	na	10.5x	9.1x	na	13.1x	11.2x	na	29%	6%	na
HNI Corporation	14,989	0.6x	0.7x	0.6x	6.2x	7.7x	6.5x	11.2x	14.9x	11.7x	19%	-7%	11%
Arbonia AG	10,656	0.8x	0.7x	0.7x	8.7x	7.2x	6.3x	24.9x	16.3x	12.5x	8%	9%	5%
De'Longhi	38,982	1.1x	1.1x	1.1x	9.5x	8.9x	8.1x	12.0x	11.4x	11.0x	5%	-4%	3%
Hitachi	732,364	0.9x	0.9x	0.9x	7.4x	7.5x	7.0x	12.1x	11.6x	10.4x	9%	-8%	5%
A.O Smith	106,202	2.7x	2.7x	2.6x	13.9x	13.6x	12.9x	15.4x	15.1x	14.2x	19%	0%	4%
Daikin	532,854	1.7x	1.7x	1.6x	12.7x	11.8x	10.9x	17.6x	16.0x	14.7x	29%	4%	5%
Lennox	108,714	2.2x	2.2x	2.1x	14.0x	12.9x	12.2x	15.6x	14.4x	13.5x	27%	1%	3%
Median		**1.4x**	**1.4x**	**1.1x**	**10.0x**	**9.0x**	**8.1x**	**14.2x**	**14.6x**	**12.5x**	**19.0%**	**0.1%**	**4.8%**
Median	*29,994*	***1.7x***	***1.7x***	***1.5x***	***12.0x***	***11.7x***	***10.7x***	***17.1x***	***15.2x***	***13.5x***	***22.9%***	***4.9%***	***5.2%***
Average	*133,007*	***2.1x***	***2.0x***	***1.8x***	***13.7x***	***12.1x***	***10.9x***	***19.3x***	***16.9x***	***14.7x***	***24.1%***	***4.6%***	***7.2%***
Energy Save	900	2.5x	1.5x	1.1x	13.4x	7.7x	5.4x	14.5x	9.6x	6.7x	204%	72%	28%
Key Peers		2.5x	2.0x	1.9x	20.7x	15.8x	14.6x	27.3x	20.6x	18.7x	29.0%	12.5%	6.2%
Nibe, Systemair, BeijerRef, Nederman													
vs Key Peers		0.6%	(25.8%)	(41.9%)	(35.2%)	(51.4%)	(62.9%)	(47.0%)	(53.4%)	(64.1%)	175.0	59.5	21.8

Source: Factset

DCF Valuation

On the back of the weaker-than-expected Q3 report, we reduce our valuation due to lower estimates in 2022/2023e as well as a higher wacc, from 10% to 10.5%. Furthermore, the recent capital injection strengthens the balance sheet but is somewhat offset by the dilution effect. In the long run, we take a conservative margin approach as we believe the fierce competition in the market could pressure margins over time. We maintain our valuation range of SEK140-SEK335. However, our new base case is SEK240 (255), based on a DCF and earnings multiple approach. We provide our key assumptions below. At our base case, Energy Save would trade at 18x EV/EBIT (2023/24e), a 15% discount versus key peers.

Bear Case SEK140

Sales CAGR 22-27'e: 59%
Sales CAGR 28-35'e: 6%
Terminal growth rate: 2%
Avg EBIT margin 23-37'e: 11%
Terminal EBITDA margin: 15%
WACC: 10.5%

Base Case SEK240 (255)

Sales CAGR 22-27'e: 70%
Sales CAGR 28-35'e: 7%
Terminal growth rate: 2%
Avg EBIT margin 23-37'e: 14%
Terminal EBITDA margin: 16%
WACC: 10.5%

Bull Case SEK335

Sales CAGR 22-27'e: 79%
Sales CAGR 28-35'e: 8%
Terminal growth rate: 2%
Avg EBIT margin 23-37'e: 16%
Terminal EBITDA margin: 17%
WACC: 10.5%

DCF assumptions	2021/22-2026/27e	2027/28e-2034/35e		DCF value
Net sales CAGR	70%	7%	**Wacc**	**10.5%**
Average EBIT margin	13%	14%	**NPV of FCF**	842
			NPV of terminal	561
Terminal				
Sales growth %	2.0%		**Sum of NPV**	**1,403**
EBIT margin %	13%		**Net debt (cash) 23/24e**	-164
			Equity value	**1,567**
			Nosh	6.54
			Value / share	**240**

Source: Redeye research

Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 points. The maximum score for a valuation key is 5 points.

People: 4

Energy Save is entrepreneur-led. The co-founders own ~50 percent of the outstanding capital. Strong insider ownership mitigates the risk of long-term value damage.

Business: 3

Energy Save operates in a market characterized by fierce competition. Its products fulfill the demand and certification required to accelerate the green energy transition. Heat pumps have a lifecycle of approximately 20 years, with limited maintenance. Enables long-tail customer cycles, which makes it tougher for customers to change manufacturers.

Financials: 3

Energy Save is a company in the early stages that invest properly to capture future growth opportunities. Thus, profitability ratios are somewhat harmed by growth investments.

	2021	2022E	2023E	2024E
INCOME STATEMENT				
Net sales	108	328	564	726
Cost of Revenues	81	227	385	495
Gross Profit	26	101	179	232
Operating Expenses	26	43	68	88
EBITDA	1	58	110	144
Depreciation & Amortization	3	5	20	24
EBIT	-2	53	91	120
Net Financial Items	-1	-1	-1	-1
EBT	-3	52	90	119
Income Tax Expenses	0	11	19	25
Non-Controlling Interest	0	0	0	0
Net Income	-3	41	71	94
BALANCE SHEET				
Assets				
Current assets				
Cash & Equivalents	21	188	175	253
Inventories	37	79	135	174
Accounts Receivable	20	49	79	102
Other Current Assets	1	3	6	7
Total Current Assets	79	320	395	537
Non-current assets				
Property, Plant & Equipment, Net	2	2	54	51
Goodwill	0	0	0	0
Intangible Assets	23	24	28	23
Right-of-Use Assets	0	0	0	0
Shares in Associates	0	0	0	0
Other Long-Term Assets	0	0	0	-1
Total Non-Current Assets	25	26	83	74
Total Assets	104	345	478	611
Liabilities				
Current liabilities				
Short-Term Debt	6	9	8	7
Short-Term Lease Liabilities	0	0	0	0
Accounts Payable	11	52	96	123
Other Current Liabilities	23	36	55	68
Total Current Liabilities	40	97	158	198
Non-current liabilities				
Long-Term Debt	7	4	4	4
Long-Term Lease Liabilities	0	8	9	8
Other Long-Term Liabilities	6	3	3	3
Total Non-current Liabilities	12	15	15	14
Non-Controlling Interest	0	0	0	0
Shareholder's Equity	51	233	304	398
Total Liabilities & Equity	104	345	478	611
CASH FLOW				
NOPAT	-2	42	72	94
Change in Working Capital	-9	-19	-27	-23
Operating Cash Flow	-11	32	64	95
Capital Expenditures	0	-1	-71	-6
Investment in Intangible Assets	-4	-5	-6	-10
Investing Cash Flow	-4	-6	-77	-16
Financing Cash Flow	30	141	-1	-1
Free Cash Flow	-15	27	-12	79

DCF Valuation Metrics	**Sum FCF (SEKm)**
2022-2025	126
2026-2036	716
Terminal	562
Firm Value	1404
Net Debt 23e	-164
Equity Value	1568
Fair Value per Share	240

	2021	2022E	2023E	2024E
CAPITAL STRUCTURE				
Equity Ratio	0.5	0.7	0.6	0.7
Debt to equity	0.2	0.1	0.0	0.0
Net Debt	-9	-164	-164	-243
Capital Employed	63	248	320	413
Working Capital Turnover	4.6	7.7	8.1	7.9
GROWTH				
Revenue Growth	95%	204%	72%	29%
Basic EPS Growth	-77%	-1390%	73%	32%
Adjusted Basic EPS Growth	-77%	-1384%	73%	32%
PROFITABILITY				
ROE	-7%	29%	26%	27%
ROCE	-3%	21%	28%	29%
ROIC	-5%	72%	65%	59%
EBITDA Margin (%)	1%	18%	20%	20%
EBIT Margin (%)	-2%	16%	16%	16%
Net Income Margin (%)	-3%	13%	13%	13%
VALUATION				
Basic EPS	na	6.3	10.9	14.4
Adjusted Basic EPS	na	6.3	10.9	14.4
P/E	na	25.2	14.5	11.0
EV/Revenue	na	2.5	1.5	1.1
EV/EBITDA	na	14.1	7.9	5.5
EV/EBIT	na	15.4	9.6	6.6
P/B	na	4.2	3.4	2.6

SHAREHOLDER STRUCTURE	**CAPITAL %**	**VOTES %**
Christian Gulbrandsen	14%	37.3%
Project Air (Fredrik Sävenstrand)	14%	37.3%
Nordea Fonder	6%	2.0%
Avanza Pension	5%	1.8%
Handelbanken Fonder	5%	1.7%

SHARE INFORMATION	
Reuters code	ESGR
List	Spotlight
Share price	158
Total shares, million	6.54

MANAGEMENT & BOARD	
CEO	Fredrik Sävenstrand
CFO	Helena Wachtmeister
Chairman	Per Wassen

ANALYSTS
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Henrik Alveskog

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Redeye Rating and Background Definitions

Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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Disclaimer

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Redeye does not issue any investment recommendations for fundamental analysis. However, Redeye has developed a proprietary analysis and rating model, Redeye Rating, in which each company is analyzed and evaluated. This analysis aims to provide an independent assessment of the company in question, its opportunities, risks, etc. The purpose is to provide an objective and professional set of data for owners and investors to use in their decision-making.

Redeye Rating (2023-03-20)

Rating	People	Business	Financials
5p	7	6	2
3p - 4p	145	145	38
0p - 2p	24	27	138
Total	178	178	178

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CONFLICT OF INTERESTS

Viktor Lindström owns shares in the company :No

Henrik Alveskog owns shares in the company : No

Redeye performs/have performed services for the company and receives/have received compensation from the company in connection with this.