Energy Save: Increased confidence in Aira partnership

Energy Save **Research Update** 2024-03-25 07:00 **Updated** 2024-03-25 07:06

Redeye updates its estimates and fair value range following Energy Save's Q3 2023/2024 report. Last week, we had the opportunity to visit Energy Save at its headquarters, which gave us additional market insights and key focus areas for Energy Save. While the European market is still challenging in the near term, we still expect Energy Save to generate sequential growth going forward – primarily thanks to its partnership with Aira – a partnership we consider a result of Energy Save's business model.

Mattias Ehrenborg

Q3 financial review

Energy Save's Q3 report was largely in line with our estimate on the top line, but higher-than-expected costs caused the EBIT to come in below our estimates. Net sales came in at SEK50.3m (SEK87.4m) versus our estimate of SEK55.7m. This represented a 42% y/y decline but 51% q/q growth, where we consider the latter to be thanks to Aira-sales. The gross margin amounted to 27.0% (31.5%) versus our estimate of 31.0%, a deviation explained by a large degree of direct deliveries taking place in the quarter (which typically has a relatively lower margin but higher volume). OPEX amounted to SEK-17.4m (SEK-11.8m) vs our estimate of SEK-15.6m. The deviation from our estimates stems from higher costs related to the Aira partnership and increased product development. All in all, EBIT amounted to SEK-7.4m (SEK14.3m) versus our estimate of SEK0m.

Sustained market challenges – but Aira remains the near-term growth driver

The European heat pump market has been very challenging in the recent two quarters, although depending on geographic market, some have come further in subsidy schemes. Total heat pump sales in 2023 were down y/y, where Q3 and Q4 were particularly slower. Therefore, we consider Energy Save's sequential growth for the second quarter in a row very positive. We believe that the Aira partnership is the driver of this, and we expect Aira to continue to drive sales growth in the coming quarters, where the UK and Germany (Aira's key markets) have relatively favourable market fundamentals thanks to its subsidy schemes.

Updated estimates and fair value range

We slightly reduce our sales forecast going forward on the back of the weakening near-term market fundamentals in recent quarters. However, we are very positive that the Aira partnership has started to generate significant sales figures. Therefore, we feel increasingly confident in our sales figures for the coming quarters, combined with the relatively "healthy" markets (in the short term) in which Aira is active. However, should near-term market fundamentals deteriorate further, there is a further risk to these estimates. We also slightly reduce our gross margin assumptions going forward and increase the expected OPEX base. All in all, our fair value range is reduced to SEK30(50)-SEK140(160) with a base case of SEK65(90) per share.

Key financials

SEKm	2022	2023e	2024e	2025e
Revenues	296.8	175.4	329.6	403.8
Revenue Growth	176%	-40.9%	87.9%	22.5%
EBITDA	47.3	-20.0	19.0	42.2
EBIT	42.6	-25.6	12.4	34.4
EBIT Margin	14.3%	-14.6%	3.8%	8.5%
Net Income	33.2	-26.2	9.4	26.7

REDEYE

REDEYE QUALITY RATING

People	Business	Financials
4	3	3

FAIR VALUE RANGE

Price 34.8

Bear 30.0 Bull 140

Base 65.0

TIMELINESS

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KEY STATS

Market Cap	229.1 MSEK
Entprs. Value (EV)	172.1 MSEK
Net Debt (2024e)	-57.0 MSEK
30 Day Avg Vol	13 K
Shares Outstanding	6.6M
Price / Earnings	24.3x
PEG	N/A
Dividend Yield	N/A

Data from 2024-03-25 07:07

IMPORTANT INFORMATION

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SEKm	2022	2023e	2024e	2025e
EV/Sales	2.0	0.9	0.5	0.5
EV/EBIT	13.8	-5.9	14.1	5.3

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Q3-wrap-up

Energy Save reported Q3 23/24 net sales of SEK50.3m (SEK87.4m) versus our estimate of SEK55.7m. A decrease of 42% y/y, but an increase of 51% q/q. The deviation stems primarily from weaker-than-expected sales in the commercial segment. However, we were encouraged to see that sales grew 51% sequentially, which we believe is almost solely driven by the Aira partnership starting to generate deliveries from Energy Save.

Sales from the residential segment accounted for 84% of sales, while the commercial segment represented 13%. Sales from Nordic countries reached SEK8.4m (SEK49m), primarily driven by the weaker Danish market, which only contributed to SEK0.9m in Q3 23/24 versus SEK45m in Q3 2022/23.

This development was rather expected, as the European market (although somewhat dependent on region) has had a very challenging two recent quarters. Also, as Energy Save primarily goes to the market through its network of distributors, it seems that there has been inventory build-up (at the distributors), which can cause clear short-term drops in the order intake as short-term demand weakens and the inventory levels among distributors have been more than enough to supply existing market demand. This seems to have been the case in Denmark in this quarter.

The gross margin reached 27.0% (31.5%) versus our estimate of 31.0%. This was a decrease relative to the Q2 '23/24 margin of 30.9%, which seems to be driven by a greater extent of direct deliveries to customers than before (which has a lower margin). We believe this is also a function of Aira-related sales taking place to a great extent in the quarter.

The quarter saw higher OPEX levels than the previous quarter, especially related to some other external costs related to the Aira partnership and product development. We also understand that Energy Save has recruited new staff to handle higher sales volumes in the future while positioning the company for when the markets normalise and regain momentum. In combination with the lower-than-expected gross profit, EBIT came in softer than expected at SEK-7.4m (SEK14.3m) versus our estimate of SEK0m.

Deviation table

Energy Save deviation table										
SEKm	Q1 22/23	Q2 22/23	Q3 22/23	Q4 22/23	Q1 23/24	Q2 23/24	Q3 23/24	Q3 23/24e	Diff. (abs.)	Diff. (%)
Net Sales	**51.4**	**109.9**	**87.4**	**48.9**	**27.5**	**33.4**	**50.3**	**55.7**	**-5.3**	**-10%**
Other income	0.3	-2.4	-0.2	1.5	0.2	2.3	-2.1	0.2	-2.3	-1164%
Total Revenue	**51.7**	**107.5**	**87.2**	**50.4**	**27.7**	**35.7**	**48.2**	**55.9**	-7.7	**-14%**
COGS	-35.5	-75.2	-59.9	-34.6	-21.5	-23.1	-36.7	-38.4	1.7	-4%
Gross Profit	16.2	32.3	27.3	15.8	6.2	12.6	11.5	17.5	-6.0	-34%
Total Opex	**-8.0**	**-9.9**	**-11.8**	**-14.6**	**-13.4**	**-16.7**	**-17.4**	**-15.6**	**-1.8**	**11%**
EBITDA	**8.2**	**22.4**	**15.5**	**1.2**	**-7.3**	**-4.0**	**-6.0**	**1.8**	**-7.8**	**-425%**
D&A	-1.2	-1.2	-1.2	-1.2	-1.4	-1.4	-1.5	-1.5	0.0	-1%
EBIT	**7.0**	**21.3**	**14.3**	**0.0**	**-8.7**	**-5.5**	**-7.4**	**0.3**	**-7.8**	**-2373%**
Net Financial items	-0.3	-0.3	-0.2	-0.2	-0.1	0.0	-0.3	-0.4	0.1	-30%
EBT	**6.8**	**21.0**	**14.1**	**-0.2**	**-8.8**	**-5.4**	**-7.7**	**0.0**	-7.7	**20716%**
Income Tax Expenses	0.0	-5.4	-3.1	0.0	0.0	0.0	0.0	0.0	0.0	-100%
Net Income	**6.8**	**15.6**	**11.0**	**-0.2**	**-8.8**	**-5.4**	**-7.7**	**0.0**	**-7.7**	**26249%**
KPI's										
Net sales Y/Y %	*472%*	*272%*	*157%*	*39%*	*-47%*	*-70%*	*-42%*	*-36%*		
Net sales Q/Q %	*46%*	*114%*	*-20%*	*-44%*	*-44%*	*21%*	*51%*	*67%*		
Gross margin %	*30.8%*	*31.6%*	*31.5%*	*29.1%*	*21.7%*	*30.9%*	*27.0%*	*31.0%*		
EBITDA margin %	*16.0%*	*20.4%*	*17.8%*	*2.4%*	*-26.5%*	*-12.1%*	*-12.3%*	*3.3%*		
EBIT margin %	*13.7%*	*19.3%*	*16.4%*	*-0.1%*	*-31.6%*	*-16.4%*	*-15.4%*	*0.6%*		

Source: Redeye research

Operating cash flow after changes in working capital came in at SEK-10.5m while underlying free cash flow was SEK-22.8m due to high CAPEX which is related to the investment in the new factory in Turkey. Energy Save ended the quarter with a net cash position of SEK46m versus SEK87m in Q2 '23/24.

Inventory levels increased sequentially and reached SEK115m (SEK77m in Q3 2022/2023), corresponding to 72% (27%) of LTM sales. Even though this ties up capital, we believe the obsolescence risk is low and that it allows Energy Save to act quickly once the market rebounds. We also consider it a necessity at the beginning of the Aira partnership.

Aira partnership to drive growth in the coming quarters

Energy Save's product offering allows companies like Aira to go to the market via its own brand, based on Energy Save's technology platform. Earlier in 2023, Energy Save announced it is partnering with Aira, backed by Harald Mix-led Vargas.

There have been two press releases from Energy Save with information regarding the partnership with Aira.

The first was press released in conjunction with the publication of the Q1 report (published in June 2023) and referred to Energy Save becoming a technology partner to Aira, which initially included technology development and deliveries of equipment to Aira worth up to SEK20m. This initial development agreement was expected to be completed during 2023/2024. We believe that the SEK20m in revenues reflected cost coverage for the services provided by Energy Save – i.e. around 0% gross margin.

This first agreement then led to an **updated partnership**: a license agreement, which was press released in conjunction with the Q2 report published in September 2023

A summary of what has been communicated regarding the Energy Save-Aira partnership

- A contractual agreement with an initial contract length of four years from the start of Aira's production.
- The first two years of the contract period are expected to generate sales of SEK200m-400m for Energy Save.
- Energy Save sees continued good revenue potential in the second half of the agreement but cannot estimate these at this point.
- The agreement reflects market prices (and margins) on Energy Save's products.
- The agreement includes product sales, component sales, and license revenues.
- On 12 March 2024, Aira launched its new heat pump which is based on Energy Save's technology platform.
- Energy Save has previously announced that it expects the agreement to start generating revenues from Q3 2023/2024 (Nov-Jan).
- In the Q3 report, it was stated that the partnership has reached the phase where commercial deliveries have started. In other words, the project has proceeded according to plan thus far.
- Energy Save now expects successively growing volumes from the partnership.

We also know that Aira has previously acquired a factory in Poland to produce heat pumps starting in 2024. Therefore, we consider it likely that Energy Save's sales to Aira will be tilted towards products and components in the early stage, moving towards license revenues in the later stage.

We estimate that product/component revenues should have a gross margin of around 20-25%, whereas license revenues should be 100%. Therefore, the sales mix is very important for the margin, and it is difficult from an outside perspective to assess the blended margin. However, as the partnership progresses in time, we believe it will be tilted towards license (as Aira should want to produce in-house given its Polish factory), and the blended margin should increase.

We believe **Aira's business concept** allows the company to penetrate untapped parts of the heat pump market, approaching "uneducated households" through its vertical go-to-market strategy, where it has a growing network of installers while offering a subscription-based price model towards the customers (combined with generous service and guarantee commitments) – which should lower the barriers for approaching and acquiring potential new customers.

We believe that Energy Save will provide direct deliveries for Aira, which means that Aira will not hold any significant inventory levels. As such, Energy Save's Aira-related sales should correlate rather well with Airas order intake. Therefore, we believe that Energy Saves sales from Aira should be linear going forward – even if the market is turbulent – as we expect Aira to be aggressive in gaining market shares (thus outgrowing the market).

It is, however, difficult to pinpoint these volumes from an outside perspective. However, we consider Aira a very credible partner, which we also argue verifies Energy Save's business model and product offering. We do not rule out additional partnerships with other brands like Aira that might take place in the future. This could have a further positive effect on our estimates and valuation.

While it is difficult to assess what will happen after the **initial** four-year contract period with Aira, the likelihood is great that the vast majority of Aira's installed base will be based on Energy Save's technology platform. Given that Energy Save's pumps are high quality while being attractively priced, we believe that it would not make sense to completely abandon the technology platform, and we do not rule out a continued strategic partnership between the companies (after the end of the contractual period).

Market outlook

Several heat pump OEMs are cutting down on staff

2023 has been a challenging year for the heat pump OEMs active in the European market. NIBE highlighted in its Q4 2023 report, published a month ago in mid-February, that the end of 2023 saw a clear decline in order intake, driven by high-interest rates and elevated inventory levels among distributors, as OEMs delivery capacity has improved.

NIBE also saw further evidence of weak demand in the European market in the first week of 2024. As a result, the company initiated a cost savings program in conjunction with the release of its Q4 2023 report, where 500 FTE will leave the company, which is expected to save SEK600m pa. The cost-saving program was followed up in mid-March when NIBE announced that it would let 340 FTE go to Sweden.

In addition, Thermia announced in early March that it is letting 43 consultants leave, following another 29 in December 2023. The CEO also stated that, "Unfortunately, we don't see any improvement in the market".

Furthermore, Bosch Thermoteknik, based in Tranås (Sweden), has decided to dismiss 100 FTE (following a similar action earlier in H2 2023) based on a sharp decline in the heat pump industry.

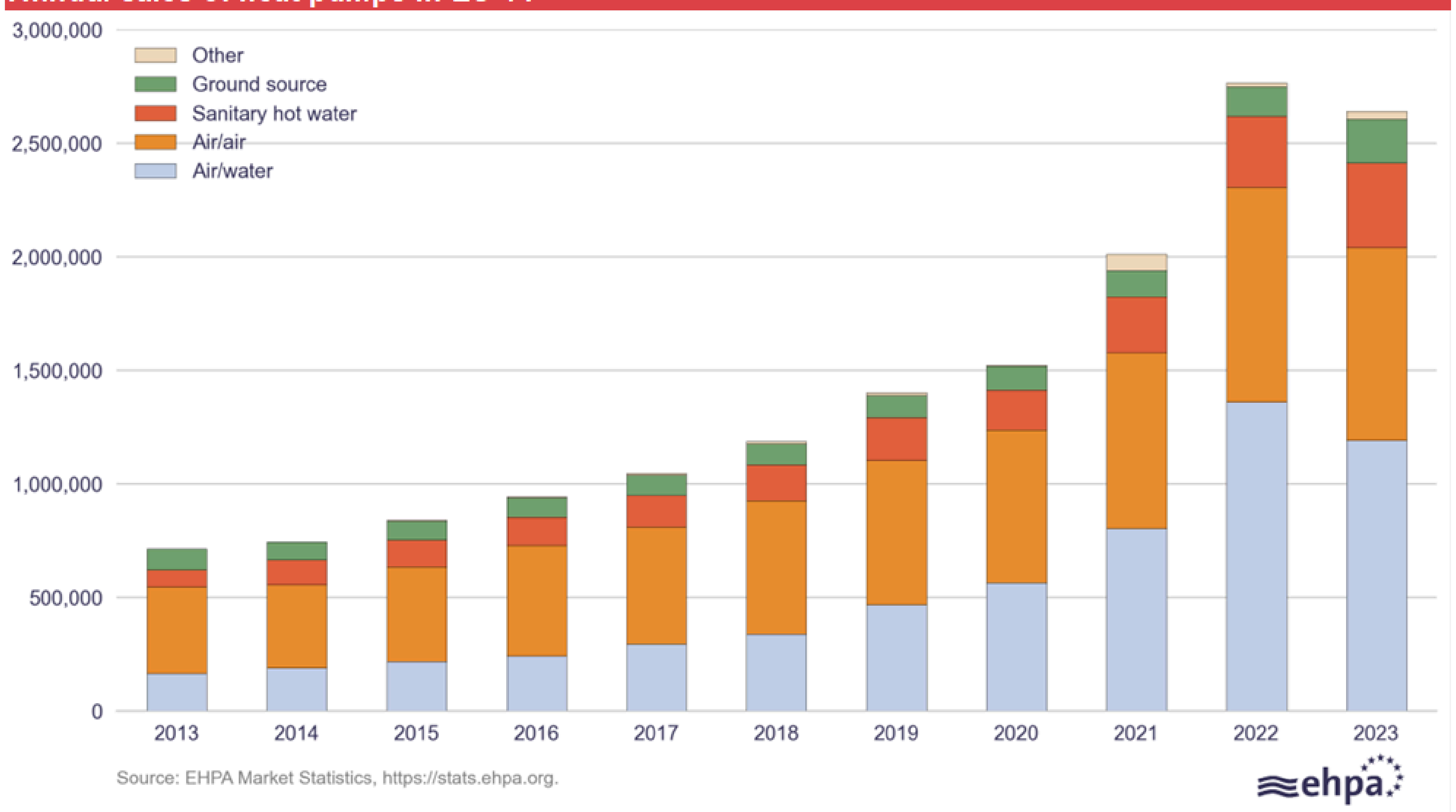
Sustained near-term market challenges – but highly dependent on geography

It is evident that there are significant near-term challenges in the European heat pump market, driven by high inflation and interest rates, coupled with delayed subsidy schemes and gas prices being on the same levels as before the sharp increase during 2021.

It is also evident that this has made an impact on Energy Save growth in recent quarters. However, with the Aira partnership in place, we believe that Energy Save will be able to outgrow the market in the coming quarters and years. We believe we are already seeing positive signs of this.

Data published by EHPA states that European heat pump sales declined for the first time in 10 years (-5% growth). The table also tells us that air/water, which Energy Save is active within, declined by around 12%.

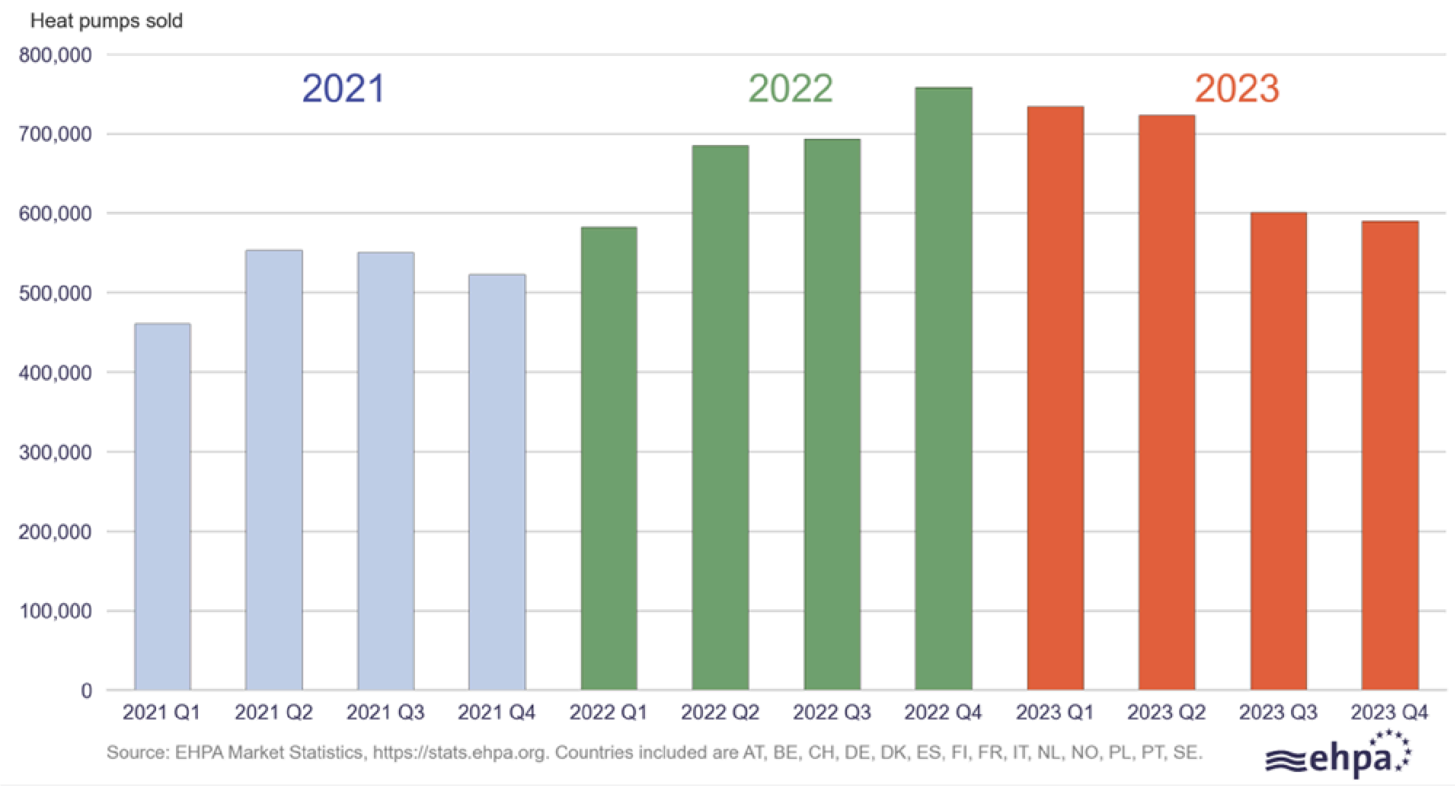
Annual sales of heat pumps in EU-14



Source:EHPA

Despite this, Energy Save has grown sequentially in the recent two quarters, despite the same quarters providing the lowest sales figures for heat pumps in 2023.

European heat pumps sold declined each quarter in 2023

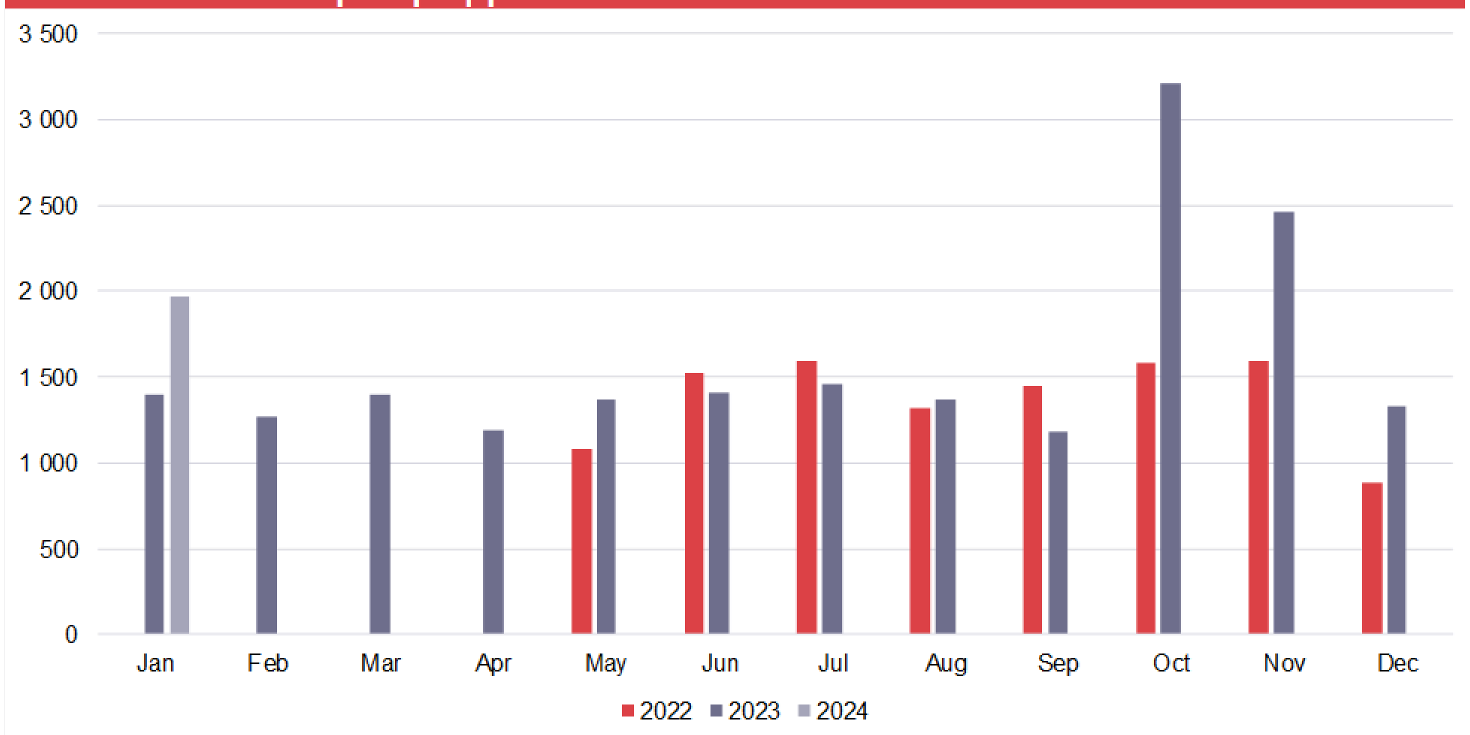


Source: EHPA

These EHPA figures do not include the UK, but we have learned that UK heat pump installations grew 20% in 2023 – probably largely thanks to its subsidy scheme. We have also found statistics from the UK government highlighting the number of heat pump subsidy applicants. We note that the activity in the recent four months has been high when compared to 2022.

The UK figures should be a very good indicator for Aira sales in the region given that the subsidy application should be a no-brainer for the customers – which is handled by the installer (which, in Aira's case, plays an important role in the business model).

UK air source heat pump applications



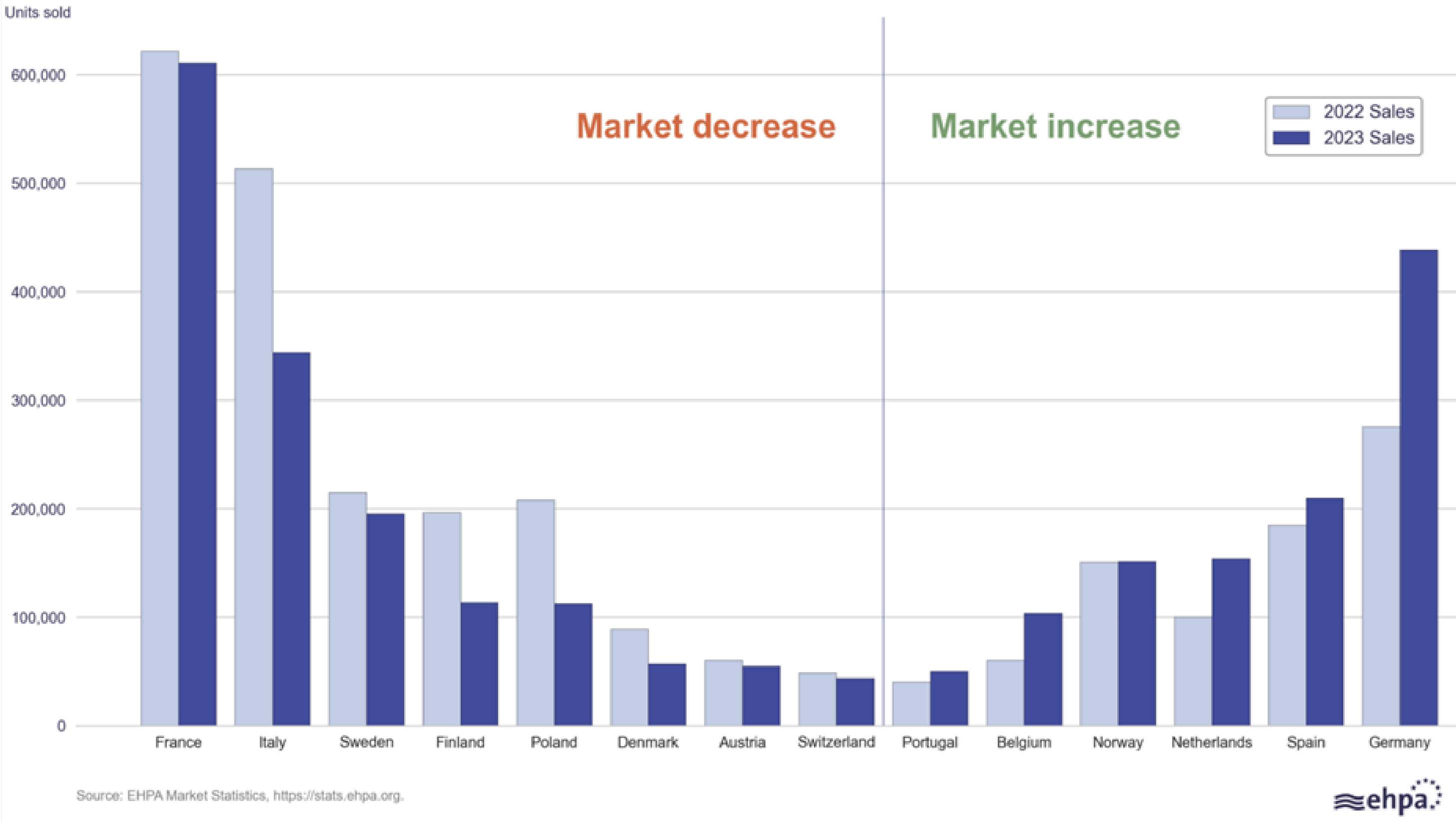
Source: UK Gov

While the long-term market outlook remains very attractive for the heat pump market, short-term market fundamentals have deteriorated due to national subsidy schemes and the EU's heat pump action plan being pushed in time.

This has likely, along with increasing interest rates, inflation, and lower gas prices, played a role in many European markets being hesitant – which has caused inventory build-up among distributors and directly affected Energy Save's near-term sales figures.

We therefore consider the partnership with Aira, where direct deliveries will take place (which reduces the risk of inventory build-up), to be a good complement to Energy Save's revenue streams.

European heat pump sales per market



Source: EHPA

Estimate changes

We reduce our estimates on the back of Energy Save's Q3 report and the current market conditions. We still expect Energy Save to generate attractive sales growth going forward, which Aira primarily drives.

Our growth estimates are largely dependent on Aira and the success it has in its markets. We argue that the company is operating in markets with relatively solid near-term market fundamentals, coupled with a value proposition targeting an untapped part of households that should allow for greater chances of gaining market shares in the overall heat pump market.

Tracking the adoption rate of Aira's offering amongst European customers will be interesting. If successful, it should have a positive effect on Energy Save. We do already, however, expect sales to be scaled up gradually.

We slightly reduce our gross margin assumptions to better reflect a larger share of direct deliveries to Aira going forward (which was also why we saw a slightly lower margin in this quarter).

We also slightly increase our OPEX assumptions going forward, as we consider Energy Save to be forward-leaning in this environment to focus on developing its product offering and other measures to increase its long-term chances of further success with other potential partners.

All in all, our EBIT estimates are reduced for the period 2023-2026, but we have greater confidence in the Aira partnership turning out as a positive for Energy save – both strategically – and from a financial perspective.

SEK m	New estimates			Old estimates			Diff (%)		
Year	2023/24'e	2024/25'e	2025/26'e	2023/24'e	2024/25'e	2025/26'e	2023/24'e	2024/25'e	2025/26'e
Net Sales	**175**	**330**	**404**	**190**	**350**	**431**	**-8%**	**-6%**	**-6%**
COGS	-129	-237	-283	-134	-240	-294	-3%	-1%	-4%
Gross profit	46	92	121	59	110	137	-22%	-16%	-12%
Total Net opex	**-66**	**-73**	**-79**	-62	-68	-74	8%	7%	7%
EBITDA	-20	19	42	**-2**	**42**	**63**	760%	-55%	-33%
D&A	-6	-7	-8	-6	-7	-9			
EBIT	**-26**	**12**	**34**	**-8**	**35**	**54**	**215%**	**-64%**	**-36%**
Net Income	**-26**	**9**	**27**	**-10**	**27**	**42**	161%	-65%	-37%

Source: ES (Historical data) Redeye research (Forecast)

SEK m	2022/23				2023/24								
Year	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4e**	**2021/22**	**2022/23**	**2023/24'e**	**2024/25'e**	**2025/26'e**
Net Sales	51	110	87	49	27	33	50	64	108	298	175	330	404
COGS	-36	-75	-60	-35	-22	-23	-37	-48	-81	-205	-129	-237	-283
Gross profit	16	32	27	16	6	13	11	16	26	92	46	92	121
Gross margin, %	31%	32%	31%	29%	22%	31%	27%	25%	25%	31%	26%	28%	30%
Capitalised dev	1	1	1	2	2	2	4	3	4	5	10	10	10
Other external expenses	-5	-7	-7	-9	-8	-11	-13	-13	-15	-27	-45	-48	-50
Personnel expenses	-4	-5	-6	-7	-7	-8	-8	-8	-15	-22	-32	-35	-39
Total Net opex	**-8**	**-10**	**-12**	**-15**	**-13**	**-17**	**-17**	**-19**	**-26**	**-44**	**-66**	**-73**	**-79**
EBITDA	8	22	16	1	-7	-4	-6	-3	1	47	-20	19	42
EBITDA-margin	16%	20%	18%	2%	-27%	-12%	-12%	-4%	1%	16%	-11%	6%	10%
D&A	-1	-1	-1	-1	-1	-1	-1	-1	-3	-5	-6	-7	-8
EBIT	**7**	**21**	**14**	**0**	**-9**	**-5**	**-7**	**-4**	**-2**	**43**	**-26**	**12**	**34**
EBIT-margin	14%	19%	16%	0%	-32%	-16%	-15%	-6%	-2%	14%	-15%	4%	9%
Net finance	0	0	0	0	0	0	0	0	-1	-1	-1	-1	-1
PTP	**7**	**21**	**14**	**0**	**-9**	**-5**	**-8**	**-4**	**-3**	**42**	**-26**	**12**	**34**
tax	0	-5	-3	0	0	0	0	0	0	-9	0	-3	-7
Net Income	**7**	**16**	**11**	**0**	**-9**	**-5**	**-8**	**-4**	**-3**	**33**	**-26**	**9**	**27**
EPS	1.2	2.7	1.9	0.0	-1.3	-0.8	-1.2	-0.7	-0.5	5.1	-4.0	1.4	4.1

Source: ES (Historical data) Redeye research (Forecast)

Valuation

DCF Valuation

On the back of the weaker-than-expected Q3 2023/24 report and sustained market challenges, we reduce our valuation due to lower estimates in 2023/24e-2025/26e.

In the long run, we take a conservative margin approach as we believe the fierce competition in the market could pressure margins over time. **Our new valuation range is SEK30(50)-SEK140(160) with a base case of SEK65(90)**, based on a DCF and earnings multiple approach. We provide our key assumptions below.

Valuation scenarios

SEK	Bear case	Base case	Bull case
Valuation per share	**30**	**65**	**140**
Revenue CAGR 2023-2027	2%	11%	20%
Revenue CAGR 2028-2037	3%	4%	7%
Avg EBITDA-margin 2023-2037	10%	13%	15%
Terminal growth	2%	2%	2%
Terminal EBITDA %	12%	15%	17%

Source: Redeye research

Our base case of SEK65 corresponds to 28x EV/EBIT('24/'25e), which is around 50% higher than our broader selected peer group and around 30% higher than NIBE and Beijer Ref. However, the multiple goes down to 10x EV/EBIT ('25/'26e), around 30% lower than our broader selected peer group and around 45% lower than NIBE and Beijer Ref.

Peer valuation

Peer valuation

		EV/Sales			EV/EBIT			Sales CAGR	EBIT CAGR	EBIT margin		
Company	**EV (SEKm)**	**2023**	**2024e**	**2025e**	**2023**	**2024e**	**2025e**	**23–25e**	**23–25e**	**2023**	**2024e**	**2025e**
NIBE	128 243	3.4x	2.9x	2.6x	23.0x	22.2x	18.4x	8.5%	7.2%	14.9%	13.2%	13.9%
Lindab International	20 389	1.4x	1.5x	1.4x	15.7x	14.9x	12.7x	5.8%	5.8%	9.0%	10.0%	10.9%
QleanAir	646	1.3x	1.3x	1.1x	10.3x	8.2x	6.8x	7.8%	23.9%	13.0%	15.2%	16.7%
Nederman	7 304	1.2x	1.2x	1.2x	12.4x	13.8x	11.0x	7.2%	11.3%	9.9%	8.9%	10.6%
Systemair	16 606	1.4x	1.4x	1.3x	16.7x	14.4x	13.2x	2.6%	4.1%	8.3%	9.0%	9.7%
Beijer Ref	77 377	2.2x	2.1x	2.0x	22.3x	21.0x	19.3x	17.5%	21.0%	9.9%	10.1%	10.3%
GARO	1 730	1.8x	1.3x	1.2x	47.0x	20.4x	11.3x	1.1%	-2.3%	3.7%	6.6%	10.9%
Munters	40 119	2.4x	2.5x	2.3x	20.7x	19.8x	17.7x	18.3%	32.2%	12.1%	12.6%	12.9%
Absolent Air Care Group	3 727	3.5x	2.7x	2.5x	22.5x	17.5x	14.6x	4.3%	5.6%	15.4%	15.6%	17.0%
TOMRA Systems	48 969	2.8x	3.5x	3.2x	28.5x	28.2x	22.2x	9.3%	16.1%	9.6%	12.2%	14.3%
Orsted	337 191	2.8x	2.5x	2.3x	N/A	13.8x	10.7x	-10.1%	-1.3%	-22.5%	17.9%	19.8%
Median	**30 254**	**2.3x**	**2.3x**	**2.2x**	**22.3x**	**18.7x**	**13.9x**	**7%**	**9%**	**10%**	**12%**	**13%**
Average	**60 939**	**2.3x**	**2.2x**	**2.0x**	**22.5x**	**18.5x**	**15.0x**	**7%**	**12%**	**8%**	**12%**	**13%**
Energy Save*	188	1.1	0.6	0.5	(7.3x)	15.1x	5.5x	11%	-7%	-15%	4%	9%

*Source: Factset *Redeye estimates*

Please note that our estimates in this table use today's enterprise value of Energy Save in its forward-looking estimates rather than the enterprise value each year (which goes down as the cash balance increases).

Investment thesis

Case

Market propelled by structural tailwinds

Energy Save operates in a market supported by structural tailwinds. The European heat pump market is expected to grow by a CAGR of 20% until 2025, supported by subsidies, legislation, and enhanced technology. Energy Save's products are tilted toward the fastest-growing segment (air-water), and its prefabricated and hybrid heating systems indicate that end consumers could optimize their energy consumption. We believe the company is well-positioned to gain market share and capitalize on the growing market. Furthermore, its outsourced business model enables operating margins of around 15%.

Evidence

The EU Green deal and RePowerEU initiatives should support the acceleration

Currently, many subsidies and legislations are implemented across Europe. The European Commission estimated that EUR 260bn in additional annual investments should be mobilized towards the ambition of the European green deal and the current 2030 climate and energy target. Based on the outstanding building stock of 120 million, the number of required appliances would be ~40 million units, supporting the underlying market. In addition, the number of heat pumps are expected to increase from c12m units in 2021 to c60m units in 2031.

Challenge

Lagging infrastructure and fierce competition

The transition towards green electricity in the EU could face some bottlenecks based on the lack of installers and components. In addition, there are risks that the infrastructure in large European markets (UK & Germany) is too old, and thus, heat pumps may not be as efficient as they could be. In addition, the competition is fierce and may impose price pressure over time.

Valuation

Room for multiple expansion

We argue there is ample room for Energy Save to grow by entering new markets and growing on existing customers. However, we believe the margin expansion in the coming years will be muted, and we estimate that sales volume will be the major value-adding driver going forward. At our base case, Energy Save would trade at 10x EV/EBIT in 2025/2026e.

Quality Rating

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 manufacturer.

Financials: 3

Energy Save is a company that is still relatively small. However, the recent performance has delivered solid growth, operating margins at 15%, and high RoE. We expect the major margin expansion to be done to some extent and argue sales volume will be crucial for delivering solid financials.

Financials

Income statement

SEKm	2022	2023e	2024e	2025e
Revenues	296.8	175.4	329.6	403.8
Cost of Revenue	206.0	128.5	237.3	282.7
Operating Expenses	44.2	66.4	73.3	78.9
EBITDA	47.3	-20.0	19.0	42.2
Depreciation	4.8	5.6	6.6	7.9
Amortizations	0.00	0.00	0.00	0.00
EBIT	42.6	-25.6	12.4	34.4
Shares in Associates	0.08	0.08	0.08	0.08
Interest Expenses	1.0	1.3	0.54	0.54
Net Financial Items	-0.88	-0.60	-0.54	-0.54
EBT	41.7	-26.2	11.9	33.8
Income Tax Expenses	8.6	0.00	2.5	7.1
Net Income	33.2	-26.2	9.4	26.7

Balance sheet

Assets

Non-current assets

SEKm	2022	2023e	2024e	2025e
Property, Plant and Equipment (Net)	3.4	13.9	19.5	24.6
Goodwill	0.00	0.00	0.00	0.00
Intangible Assets	23.7	31.4	37.8	43.9
Right-of-Use Assets	0.00	0.00	0.00	0.00
Other Non-Current Assets	99.6	86.3	15.3	15.3
Total Non-Current Assets	126.7	131.7	72.6	83.9

Current assets

SEKm	2022	2023e	2024e	2025e
Inventories	103.0	69.9	98.9	121.1
Accounts Receivable	24.4	26.2	49.4	60.6
Other Current Assets	5.5	1.7	3.3	4.0
Cash Equivalents	28.8	11.7	58.2	51.4
Total Current Assets	161.8	109.6	209.8	237.2
Total Assets	288.5	241.3	282.4	321.0

Equity and Liabilities

Equity

SEKm	2022	2023e	2024e	2025e
Non Controlling Interest	0.00	0.00	0.00	0.00
Shareholder's Equity	228.1	190.6	200.0	226.7

Non-current liabilities

SEKm	2022	2023e	2024e	2025e
Long Term Debt	0.90	0.90	0.90	0.90
Long Term Lease Liabilities	0.20	0.20	0.20	0.20
Other Non-Current Lease Liabilities	2.3	2.3	2.3	2.3
Total Non-Current Liabilities	3.4	3.4	3.4	3.4

Current liabilities

SEKm	2022	2023e	2024e	2025e
Short Term Debt	1.4	8.9	8.9	8.9
Short Term Lease Liabilities	4.3	6.7	6.7	6.7
Accounts Payable	35.9	15.7	36.3	44.4
Other Current Liabilities	15.5	16.0	27.2	30.9
Total Current Liabilities	57.0	47.3	79.1	90.9
Total Liabilities and Equity	288.5	241.3	282.4	321.0

Cash flow

SEKm	2022	2023e	2024e	2025e
Operating Cash Flow	-17.8	-5.1	-6.0	12.3
Investing Cash Flow	-105.0	-23.6	52.5	-19.1
Financing Cash Flow	130.5	11.6	0.00	0.00

Rating 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 longterm 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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