

Update: Report Q2 2021

2021-08-24

Heliospectra: Still Covid-impacted

- Product portfolio strengthened
- Nectar Farms order cancelled
- We lower our fair value interval to SEK 4.30 – 6.70 per share

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Stock ticker: HELIO
Industry: Electrical equipment
Listed on: Nasdaq First North
Latest stock price (SEK): 2,88
Market cap (MSEK): 222,5
Enterprise Value (MSEK): 176,4
Total number of shares (M): 77,25
- of which free float (M): 24,64

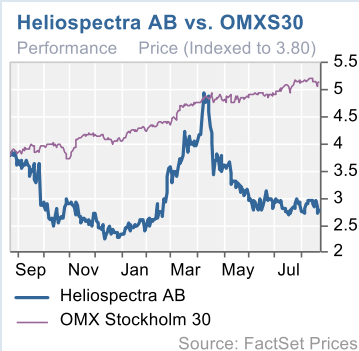
VHCF fair value per share
DCF model SEK 4,30 - 6,70

Heliospectra AB
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414 58 Göteborg
Webpage: heliospectra.com
CEO: Ali Ahmadian

Main owners (30 Jun 2021) Capital (%)

Weland Värdepapper AB	22,5
Weland Stål AB	18,6
ADMA Förvaltnings AB	15,5
Midroc New Technology AB	11,5
Avanza Pension	3,1

Stock price history



	-1m	-3m	-12m
Change (%)	-0,4	-13,0	-26,4
52 w k range (Low /Hi) - SEK	2,14 / 5,00		

Source: FactSet

Heliospectra's report for Q2 included lower revenues but higher gross margins than expected. The order of SEK 72 million from Nectar Farms was also cancelled during the quarter, something we wrote about in our last [update](#). The launch of a newly upgraded helioCORE 2.0 was announced as well, along with a couple of new orders. The order intake excluding the Nectar Farms order is solid yet impacted by the Covid-pandemic, hence we make some revisions to our sales forecast up until the end of next year. We therefore lower our valuation interval to SEK 4.30 – 6.70 per share.

The order intake for the second quarter amounted to SEK -61.5 million, but excluding the cancellation of the Nectar Farms order the number amounted to SEK 10.2 million. Revenue came in at around SEK 8.8 million and cost of goods sold at SEK 4.9 million. This implies a gross margin of 43.8% was achieved during the quarter, a margin substantially higher than the 29.3% posted during Q1 this year. The revenue decreased by about SEK 1 million compared to the previous quarter, but in comparison to the heavily Covid-19 influenced Q2 of 2020, revenue increased by 87%.

The cancellation of the order from Nectar Farms was carried out in April during the quarter. The order value was a significant SEK 72 million and even though it is positive that Heliospectra was chosen for the project, we always deemed the order as risky. Hence, we risk adjusted the order down to 40 percent of its original value in our valuation model. This has now been removed from our revenue forecast going forward. It should be pointed out that Heliospectra seemed to share our thoughts regarding the risk of the order since they demanded an advance payment before starting production. As far as we know, no such advance payment was made, and no production was done from Heliospectra's side. Therefore, Heliospectra should not suffer any losses apart from the foregone future revenue.

Table 1: Financial Overview

MSEK	2020	2021e	2022e	2023e	2024e
Total revenues	40,1	44,7	160,6	332,5	441,4
Grow th (%)	49,2%	11,6%	259,4%	107,0%	32,8%
EBITDA	-36,1	-29,4	-9,1	30,7	61,7
EBITDA margin (%)	neg	neg	neg	9,2%	14,0%
EBT	-40,2	-33,3	-13,3	26,1	56,7
Cash holdings	55,5	21,8	4,1	51,9	120,1
Total assets	98,5	59,4	92,1	179,4	274,0
Total equity	67,9	34,5	26,2	52,3	109,0
Solidity (%)	68,9%	58,2%	28,4%	29,2%	39,8%
P/E	neg	neg	neg	8,5	3,9
ROE	neg	neg	neg	99,6%	108,4%
EV/EBIT (x)	neg	neg	neg	6,7	3,1
EV/Sales (x)	4,4	3,9	1,1	0,5	0,4

Source: Västra Hamnen Corporate Finance

Table 2: Estimates vs actual, Q2 2021

kSEK	Q2 '20	Q2 '21e	Q2 '21 act	Diff
Net Revenues	4 674	11 248	8 768	-2 480
Other Revenues	22	0	13	13
Total Revenues	4 696	11 248	8 781	-2 467
Cost of Goods Sold	-3 693	-7 162	-4 926	2 236
Gross margin	21%	36%	44%	7%
Personnel Expenses	-8 172	-6 565	-5 916	649
Other Operating Expenses	-4 940	-5 384	-6 171	-787
Total OPEX	-16 805	-19 110	-17 013	2 097
EBITDA	-12 109	-7 862	-8 232	-369
Amortisation and Depreciation	-1 075	-805	-998	-193
EBIT	-13 184	-8 668	-9 230	-562
Net Financial Items	47	-24	0	24
EBT	-13 137	-8 691	-9 230	-538
Net Profit	-13 137	-8 691	-9 230	-538
Cash and Equivalents	25 871	35 285	35 138	-147
Total Equity	38 397	51 884	51 343	-541

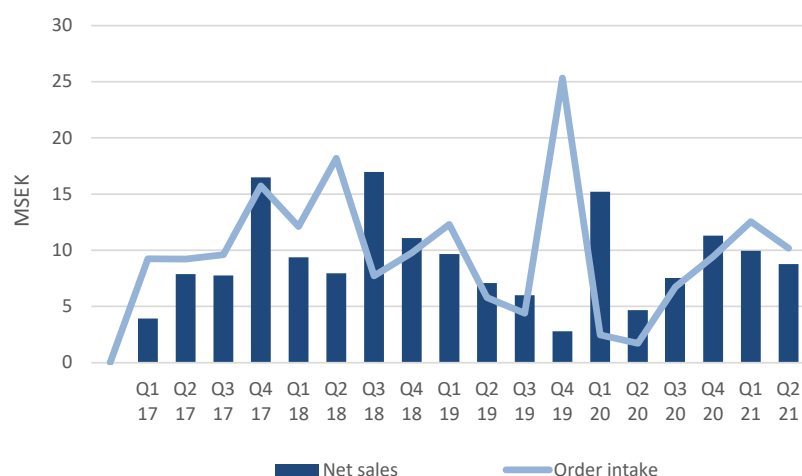
Source: Västra Hamnen Corporate Finance

Lower revenue but higher gross margin

If we compare the outcome with our forecast, it becomes evident that our expectation regarding revenue was too high. Our forecast of SEK 11.3 million was SEK 2.5 million higher than the reported outcome. This discrepancy partly explains our high forecast of COGS, which was SEK 2.2 million higher than the outcome. The other explanation for our high COGS forecast is the fact that our gross margin estimate of 36% was lower than Heliospectra's impressive 44%. Previous gross margins have fluctuated somewhat, but if the company can continue to deliver impressive gross margins, then we may have to raise our forecast somewhat. The other line items came in as expected with net profits differing by only SEK 0.5 million. Ultimately, cash and equity were almost exactly in line with our forecast.

Short-term revenue forecast decreased

Figure 1 below illustrates the order intake for Heliospectra *adjusted for the order from Nectar Farms*. The development has been positive since its bottom one year ago during Q2 2020, but during Q2 this year, both revenue and the order intake decreased compared to Q1. There are two main takeaways from the figure. Firstly, a quarter's order intake is a good proxy for the subsequent quarter's revenue. Secondly, the trend illustrated in the figure makes it evident that we need to lower our revenue forecast for the upcoming quarters. We now expect revenue to total SEK 14 million for Q4 this year. Thereafter we assume the impact of Covid-19 will subside, meaning that the revenue growth in 2022 accelerates. We leave our revenue forecast from Q4 2022 and onwards unchanged.

Figure 1: Net sales and orders excluding Nectar Farms order

Source: Heliospectra, Västra Hamnen Corporate Finance

New orders and partnerships

Two of the significant orders announced during the quarter were from G&M Family Farm and San Juan Strains Inc. respectively. The former is based in Newfoundland and Labrador in Canada with an order value of about SEK 2.1 million whilst the latter is based in Colorado in the US with an order value of about SEK 2.2 million. Furthermore, Heliospectra has signed partnership agreements with two new resellers. MineARC Systems supplies and manufactures controlled environments and will offer Heliospectra's products on the Australian market whilst Harahara Inc. supplies cultivation solutions and will act as a reseller on the Japanese market.

Strengthening product portfolio

The company is also strengthening its product portfolio going forward; the launch of helioCORE 2.0 was announced during the quarter. The helioCORE software was launched back in 2018 but after numerous trials and feedback from customers, an updated version of the software has now been announced during the quarter. The plant science software, which allows for automated solutions to be used, is expected to be launched by Q3 this year. Furthermore, the company's patented biosensor technology, which allows for growers to dynamically alter production conditions, will integrate with the updated helioCORE 2.0. The goal is to bring the biosensor technology to the market early next year.

Possible capital injection

Looking ahead it is worth highlighting Heliospectra's cash flow situation. The stock warrant program for executives, P02, expired in April out-of-the-money and was therefore not executed. As it stands now, the stock warrants for executives P03 and warrants for shareholders T02 are both out-of-the-money. Without this inflow of capital, Heliospectra's cash position will reach zero during Q3 2022, according to our forecast. It should be noted that things can change quickly and the warrants might become in-the-money, but as things stand now some sort of capital injection is necessary before Q3 2022.

Changes to the valuation model

All things considered, we have decided to lower our estimates regarding revenue for the upcoming quarters. Our expectation in the short-term is that Covid-19 will continue to negatively influence sales. However, from the beginning of Q1 2022 we forecast an ambitious revenue growth that depends on the impact of Covid-19 subsiding and on demand for Heliospectra's products to increase substantially. The pandemic might not subside as we expect and we may have to revise down our forecast slightly, but this should be compensated for by a potential increase in gross margin, which we for now leave unchanged, if margins are kept at current levels.

After updating our valuation model with the aforementioned modifications, we arrive at a lower fair value than before, cf. Table 3 below. We subsequently lower our valuation interval to SEK 4.30 – 6.70 per share.

Table 3: DCF model assumptions

MSEK	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e
Total revenues	44,5	160,6	332,5	441,4	521,9	588,0	651,3	713,6
EBIT	-33,3	-13,2	26,2	56,8	81,2	100,8	119,5	138,4
EBIT margin	-74,8%	-8,2%	7,9%	12,9%	15,6%	17,1%	18,4%	19,4%
Adj. Taxes	0,0	0,0	0,0	0,0	0,0	0,0	-3,8	-28,5
NOPLAT (= EBIT - tax)	-33,3	-13,2	26,2	56,8	81,2	100,8	115,8	109,9
Depreciation	3,9	4,1	4,5	4,9	5,2	5,4	5,6	5,7
Capex + Working cap	-6,5	-13,5	17,2	6,7	1,8	-0,4	-1,5	-1,4
Net cash flow	-35,9	-22,7	47,9	68,4	88,2	105,8	119,8	114,2

DCF (MSEK)		
WACC	16,0%	16,0%
Enterprise value (EV)	616,2	616,2
Prob of profitability	50%	80%
Risk adjusted EV	308,1	493,0
Warrants	-2,2	-2,2
Net cash (= cash - debt)	25,7	25,7
Fair value market cap	331,6	516,5
Diluted no of shares (M)	77,25	77,25
Fair value/share (SEK)	4,30	6,70

Sensitivity analysis (value per share, SEK)

		Prob of profitability			
		50%	60%	70%	80%
WACC	20%	3,10	3,70	4,20	4,80
	18%	3,60	4,30	4,90	5,60
	16%	4,30	5,10	5,90	6,70
	14%	5,20	6,20	7,20	8,20
	12%	6,60	7,80	9,10	10,30

Source: Västra Hamnen Corporate Finance

Income Statement - Annual Data

kSEK	2020	2021e	2022e	2023e	2024e	2025e	2026e	2027e
Net revenues	38 634	44 517	160 589	332 463	441 358	521 882	588 041	651 304
Other revenues	1 422	166	0	0	0	0	0	0
Total revenues	40 056	44 683	160 589	332 463	441 358	521 882	588 041	651 304
Cost of goods sold	-25 093	-27 991	-102 743	-214 013	-282 745	-332 459	-373 914	-413 768
Personnel costs	-28 849	-25 672	-35 891	-46 225	-51 005	-54 226	-56 792	-59 165
Other external costs	-20 450	-20 638	-31 093	-41 493	-45 905	-48 804	-51 113	-53 248
Other operating expenses	-1 767	217	0	0	0	0	0	0
EBITDA	-36 103	-29 401	-9 138	30 731	61 702	86 393	106 221	125 123
Amortisation & depreciation	-4 138	-3 880	-4 109	-4 534	-4 880	-5 162	-5 392	-5 579
EBIT	-40 241	-33 280	-13 247	26 197	56 822	81 231	100 830	119 544
Financials, net	8	-52	-94	-94	-94	-94	-94	-94
EBT	-40 233	-33 332	-13 341	26 103	56 728	81 137	100 735	119 450
Taxes	0	0	0	0	0	0	0	-3 645
Net profit	-40 233	-33 332	-13 341	26 103	56 728	81 137	100 735	115 806
Earnings per share (SEK)	-0,68	-0,43	-0,17	0,33	0,73	1,04	1,29	1,48
Growth (%)								
Net revenues	49,2%	11,6%	259,4%	107,0%	32,8%	18,2%	12,7%	10,8%
EBITDA	na	na	na	na	100,8%	40,0%	23,0%	17,8%
EBIT	na	na	na	na	116,9%	43,0%	24,1%	18,6%
Net profit	na	na	na	na	117,3%	43,0%	24,2%	15,0%
% of revenues (%)								
EBITDA margin	neg	neg	neg	9,2%	14,0%	16,6%	18,1%	19,2%
EBIT margin	neg	neg	neg	7,9%	12,9%	15,6%	17,1%	18,4%
EBT margin	neg	neg	neg	7,9%	12,9%	15,5%	17,1%	18,3%
Profit margin	neg	neg	neg	7,9%	12,9%	15,5%	17,1%	17,8%
Personnel costs	74,7%	57,7%	22,3%	13,9%	11,6%	10,4%	9,7%	9,1%
Total OPEX	132,2%	103,5%	41,7%	26,4%	22,0%	19,7%	18,3%	17,3%
Profitability (%)								
ROE	neg	neg	neg	99,6%	108,4%	74,4%	53,0%	39,8%
ROIC	neg	neg	neg	211,4%	neg	neg	neg	0,0%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Annual Data

kSEK	2020	2021e	2022e	2023e	2024e	2025e	2026e	2027e
Inventories	18 261	8 631	25 899	40 637	50 084	57 404	63 911	70 489
Short term receivables	9 999	9 235	40 217	63 105	78 402	90 255	100 534	111 006
Cash and cash equivalents	55 458	21 838	4 069	51 879	120 145	208 214	313 956	433 809
Total current assets	83 718	39 703	70 185	155 621	248 632	355 873	478 400	615 304
Tangible assets	1 819	2 186	3 265	4 143	4 858	5 441	5 916	6 302
Intangible assets	12 945	17 463	18 676	19 663	20 468	21 123	21 657	22 091
Total fixed assets	14 764	19 649	21 940	23 806	25 326	26 564	27 572	28 394
Total assets	98 482	59 353	92 125	179 427	273 958	382 437	505 973	643 698
Accounts payable	0	6 158	22 603	47 083	62 204	73 141	82 261	91 029
Short term liabilities	21 207	9 237	33 905	70 624	93 306	109 711	123 392	136 543
Total current liabilities	21 207	15 395	56 508	117 707	155 510	182 852	205 653	227 572
Long term liabilities	9 384	9 412	9 412	9 412	9 412	9 412	9 412	9 412
Other provisions	0	0	0	0	0	0	0	0
Total equity	67 891	34 547	26 205	52 309	109 037	190 174	290 909	406 715
Total equity and liabilities	98 482	59 354	92 126	179 428	273 959	382 438	505 974	643 699

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	2020	2021e	2022e	2023e	2024e	2025e	2026e	2027e
Operating activities	-36 522	-29 430	-9 232	30 637	61 608	86 299	106 127	121 384
Changes in working capital	-8 082	4 582	-7 137	23 573	13 058	8 169	6 015	4 869
Investing activities	-2 230	-11 124	-6 400	-6 400	-6 400	-6 400	-6 400	-6 400
Financing activities	50 785	-3	5 000	0	0	0	0	0
Cash flow for the period	1 215	-35 974	-17 769	47 810	68 266	88 068	105 742	119 853
Beginning cash balance	54 243	55 458	19 484	1 715	49 525	117 791	205 860	311 602
Ending cash balance	55 458	19 484	1 715	49 525	117 791	205 860	311 602	431 455

Source: Västra Hamnen Corporate Finance

Income Statement - Quarterly Data

kSEK	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021e	Q4 2021e	Q1 2022e	Q2 2022e
Net revenues	7 464	11 296	9 960	8 768	11 745	14 044	21 690	31 953
Other revenues	769	581	153	13	0	0	0	0
Total revenues	8 233	11 877	10 113	8 781	11 745	14 044	21 690	31 953
Cost of goods sold	-5 088	-8 365	-7 044	-4 926	-7 270	-8 751	-13 705	-20 235
Personnel costs	-6 048	-5 598	-6 322	-5 916	-6 582	-6 852	-7 617	-8 359
Other external costs	-4 318	-5 582	-3 663	-5 757	-5 463	-5 756	-6 474	-7 188
Other operating expenses	-241	-886	631	-414	0	0	0	0
EBITDA	-7 462	-8 554	-6 285	-8 232	-7 569	-7 314	-6 105	-3 829
Amortisation & depreciation	-1 057	-927	-1 016	-998	-916	-950	-982	-1 013
EBIT	-8 519	-9 481	-7 301	-9 230	-8 485	-8 264	-7 088	-4 842
Financials, net	-39	-4	-5	0	-24	-24	-24	-24
EBT	-8 558	-9 485	-7 306	-9 230	-8 509	-8 288	-7 111	-4 866
Taxes	0	0	0	0	0	0	0	0
Net profit	-8 558	-9 485	-7 306	-9 230	-8 509	-8 288	-7 111	-4 866
Earnings per share (SEK)	-0,15	-0,12	-0,09	-0,12	-0,11	-0,11	-0,09	-0,06
Y-o-Y Growth (%)								
Net revenues	75,3%	44,3%	-14,9%	-13,2%	33,8%	19,6%	54,4%	47,3%
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	81,0%	49,6%	63,5%	67,5%	56,0%	48,8%	35,1%	26,2%
Total OPEX	142,1%	106,8%	93,9%	137,9%	102,6%	89,8%	65,0%	48,7%
Profitability (%)								
ROE	neg	neg	neg	neg	neg	neg	neg	neg
ROIC	neg	neg	neg	neg	neg	neg	neg	neg

Source: Västra Hamnen Corporate Finance

Balance Sheet - Quarterly Data

kSEK	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021e	Q4 2021e	Q1 2022e	Q2 2022e
Inventories	17 091	18 261	17 667	20 176	9 560	8 631	9 011	13 305
Short term receivables	10 181	9 999	8 137	9 434	8 366	9 235	14 262	21 010
Cash and cash equivalents	18 500	55 458	45 651	35 138	30 502	21 838	12 364	4 290
Total current assets	45 772	83 718	71 455	64 748	48 429	39 703	35 638	38 605
Tangible assets	1 753	1 819	1 648	1 558	1 880	2 186	2 477	2 753
Intangible assets	12 090	12 945	14 459	16 757	17 119	17 463	17 790	18 101
Total fixed assets	13 843	14 764	16 107	18 315	18 999	19 649	20 267	20 853
Total assets	59 615	98 482	87 562	83 063	67 428	59 353	55 904	59 459
Accounts payable	0	0	0	0	6 073	6 158	7 623	10 991
Short term liabilities	20 552	21 207	17 571	22 309	9 110	9 237	11 435	16 487
Total current liabilities	20 552	21 207	17 571	22 309	15 183	15 395	19 058	27 478
Long term liabilities	9 268	9 384	9 415	9 412	9 412	9 412	9 412	9 412
Other provisions	0	0	0	0	0	0	0	0
Total equity	29 795	67 891	60 576	51 343	42 834	34 547	27 435	22 570
Total equity and liabilities	59 615	98 482	87 562	83 064	67 429	59 354	55 905	59 460

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021e	Q4 2021e	Q1 2022e	Q2 2022e
Operating activities	-7 506	-8 829	-6 267	-8 232	-7 593	-7 338	-6 129	-3 852
Changes in working capital	349	-333	-1 180	932	4 557	273	-1 744	-2 622
Investing activities	-170	-1 849	-2 359	-5 565	-1 600	-1 600	-1 600	-1 600
Financing activities	-44	47 969	0	-3	0	0	0	0
Cash flow for the period	-7 371	36 958	-9 806	-12 868	-4 636	-8 665	-9 473	-8 074
Beginning cash balance	25 871	18 500	55 458	45 651	35 138	30 502	21 838	12 364
Ending cash balance	18 500	55 458	45 651	35 138	30 502	21 838	12 364	4 290

Source: Västra Hamnen Corporate Finance

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