

Very low valuation

Good times ahead

Clean Industry Solutions Holdings Europe (CISH) is probably in a better situation now than ever before. Order intake is increasing, and the long-term demand for Greentech solutions looks very promising. The return on investment (ROI) for many of the company's solutions has gone down from often more than 10 years to being around 5 or below. New public regulations also gradually come into place and support demand.

Examples of recent new orders are photovoltaic (PV) fence (MSEK 2) and normal PV-system (MSEK 9) to two customers in Germany. The company will do an engineering study (value 0,5 MSEK) at one of the largest textile suppliers to H&M, Arvind in India. In October, CISH announced a letter of commitment with an order value of around MSEK 50. This was a decisive step towards the final comprehensive contract comprising the supply of a solar process heat system at customer KEBE's factory Greece. The plan is to sign the final contract in Q1 2023. The value of total quotations continues to be strong. Operating income is up 36% YTD versus last year, but the absolute level is still low, MSEK 10.

CISH has secured funding. It received around net MSEK 12 in a rights issue conducted in October. Both subsidiaries, Industrial Solar and SolarSpring, could also secure further public funding: SolarSpring won two grant agreements for European R&D projects and Industrial Solar one for a nationally-funded R&D project on artificial intelligence. In total, with other programs, CISH has funding of around MSEK 40. Participation in these R&D programs contributes to the development of the company's solutions and differentiation in the market as a knowledgeable partner.

With the above background, it could be expected that the stock price development would have been relatively positive. This has not been the case. Market value has dropped significantly under low trading volumes in conjunction with the rights issue. Enterprise value, including cash from rights issue is only around MSEK 10.

Step change in sales is expected 2023-24

Analysguiden expects a strong increase in invoiced sales in 2023 and 2024 based on already received orders and current strong demand in the market. The several engineering studies that are being conducted is a first step towards larger order volumes, even though lead times can be long. CISH is a broad solution provider for a sustainable industry and circular economy, which means several opportunities. It uses both external products and own products such as the Fresnel collector included for example, at Kebe, Greece. Interesting products from SolarSpring include purification units and membrane distillation units. These products can be used for example to generate ultra-clean water for hydrogen production and at sewage treatment plants in the reduction of CO2 emissions and production of fertiliser.

The fair value in the DCF analysis is 3.00 SEK and corresponds to a market value at MSEK 76, just slightly above forecasted net sales in 2024. The company already has many references around the world, but a few contracts of the above mentioned potential Kebe deal, would probably be a complete game changer for the stock price.

Clean Industry Solutions

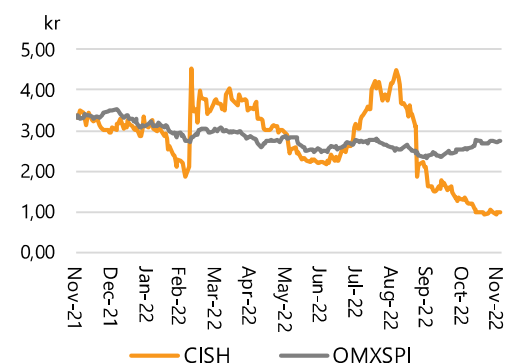
Commissioned equity research

Date 8 december 2022
Analyst Magnus Lindell

Basefacts

Industry Renewable Energy
Chairman Finn Johnsson
CEO Christian Zahler
Entry year 2019
Stock list Nasdaq First North
Ticker CISH
Share price 0.98 SEK (2 Dec -22)
Outstanding shares, mil. 25.5
Market cap, MSEK 25
Net cash, MSEK. 16
Enterprise value, MSEK 9
Website www.cleanindustrysolutions.com

CISH vs OMXSPI



Source: Börsdata

Financial Overview & forecasts

	2021	2022E	2023E	2024E
Net Sales	3	8	31	62
Operating Income	11	16	41	72
EBIT	-14	-14	-7	0
Free Cash flow*	-16	-16	-10	-5
Net Cash	14	11	10	10
Sales Growth	65%	136%	297%	100%
P/S		3.2	0.8	0.4
EV/S		1.2	0.3	0.1

* Cash flow before financing activities

Source: Börsdata, Analysguiden

Investment case

Clean Industry Solutions Holding (CISH) is a strategic investment holding in the field of innovative sustainable technologies to make industrial companies cleaner. Hence, the strategic approach is in the middle of one of the strongest megatrends. Currently, the two subsidiaries are Industrial Solar and SolarSpring. Industrial Solar offer a broad base of renewable energy solutions. SolarSpring offers water treatment systems based on membrane distillation and ultra filtration. The two subsidiaries are spin-offs in the environment from Europe's largest applied research organisation Fraunhofer Society in Germany. Both companies are currently in the development stage but with proven performance of installations. The offer base is currently significant for Industrial Solar.

Momentum picking up after pandemic

The company lost some momentum during the pandemic due to travel restrictions and higher general uncertainty. Now the Group has an organisation that is ready to take on growth. According to the company the scalability is good both via a network of subcontractors and standardisation of solutions. The large interest, visible through the high offer base and the numerous research projects, is a clear indicator of the demand for the products and services that Clean Industry Solutions delivers. Long lead times on contract negotiations mean however that growth might take time. The most likely growth scenario is several smaller orders concerning for example energy concept studies where some later moves on to implementation projects. Current offer base consists of both smaller but also projects above 100 MSEK.

Small organisation with all functions in place

Industrial Solar consists of around 25 people. It is a small organisation but with all relevant functions in place. This also applies to SolarSpring, with around ten people employed.

CISH is established in the middle of a megatrend and has a very big offer base. The company is ready to take off both commercially and in the stock market. Market value is very low in relation to these opportunities. It has around 40 MSEK in public funded R&D projects in the coming 4 years. In addition, net cash secures the business in the coming 10-12 months.

Currently two subsidiaries

Strategic approach in the middle of strong megatrend



Source: The company

Installations in many countries

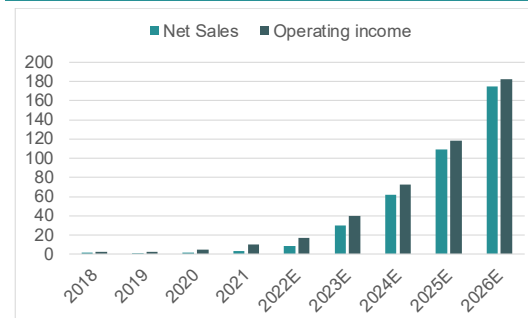
Post pandemic winner when travel restrictions ease



Source: The company

Potential for strong growth

Projections for total operating income and sales 2022-2026 in million SEK.



Source: Börssdata, forecast by Analysguiden

Progress in business and secured funding

Industrial Solar's largest order ever could be signed Q1

Industrial Solar is currently experiencing a drastically increased demand for its renewable energy solutions. Interesting examples during the fall are several engineering and energy concept studies and orders both in the PV-area as well as within the traditional solar process heat market. A letter of commitment has been signed with KEBE S.A. This agreement is a decisive step towards the final comprehensive contract comprising the supply of a solar process heat system at KEBE's factory in Kilkis, Greece, with an order value of approx. EUR 5 million, as well as the market development and realisation of specific projects with Industrial Solar's Fresnel technology. This started with an engineering study previously this year with a detailed design for Industrial Solar's flagship technology, the linear concentrating Fresnel Collector. The parties plan to sign the final contract in Q1/2023 which would be the largest order so far for Industrial Solar.

The conclusion from recent development in Industrial Solar is that order intake now is taking off to a new level, even though many discussions take long time.

Interesting development at SolarSpring

SolarSpring is a pioneer in the field of membrane distillation and has now announced cooperation with the company DEUKUM GmbH for the purpose of a specialised upscaled component production. The cooperation will lead to a significant reduction in production costs and the new production facility will have an initial capacity of 10,000 m² of module surface per year with further expansion potential. Sales value potential from production amount initially to around 1 MEUR per year but production can be increased relatively quickly if needed.

The cooperation agreement is the result of a one-year period of intense research and development on the optimisation of flat plate membrane distillation module production methods and materials research. The outcome is a highly specialised and cost-reduced production technique that is expected to fulfill the cost reduction target of 80% compared to the previous method and thus provide a highly competitive cost per unit. The cooperation and the resulting price reduction of the membrane distillation modules is expected to have a positive impact on SolarSpring's discussions and negotiations with current and potential customers. At the same time, delivery times will be significantly shortened through in-house production.

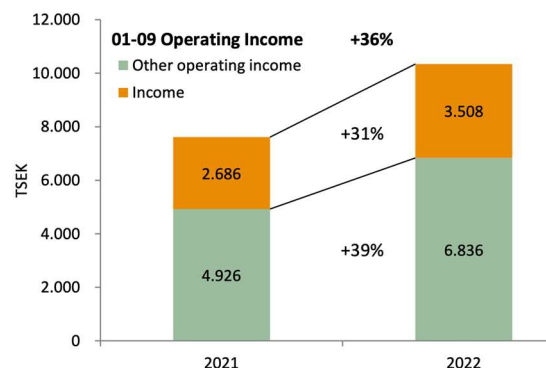
Other recently communicated opportunities are the company's products in the field of ammonia removal and fertiliser harvesting and ultra clean water for hydrogen production. An indication of the sales value for these products is 1 – 2 MSEK per unit depending on product type.

Cash flow and financial situation

The cash flow in Q3 at MSEK -2.8 was better than the average from the preceding 4 quarters (MSEK -3.9). Net cash was 3.8 in Q3 but with around MSEK 12 addition from the rights issue in October, liquidity is again satisfactory for business during coming 10-12 months.

Strong growth but still low level

Q1-Q3 2022 compared to 2021



Source: CISH Q3-report, 2022

Holistic approach

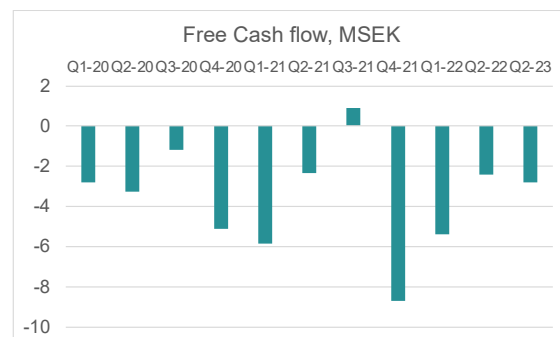
Many long term opportunities in CISH's business scope



Source: CISH Rights issue memorandum, 2022

Cash flow per quarter

Cash flow before financing activities.



Source: Börssdata

Valuation

In the base case, the fair value is 3.00 SEK which is lower compared to the update in August (4.00 SEK). The decrease is primarily related to a big dilution in the recent rights issue.

The share price is down as much as 68% in 2022 with big fluctuations during the year. The recent downturn from 4 SEK in a few months has taken place under relatively low trading volumes.

Market value has been above MSEK 100 several times during CISH's time as a listed company. Analysguiden's opinion is that it currently is in a better situation than ever before, given growth in the overall market, better ROI for its solutions, growing order intake and secured funding. Hence, the gap towards historical peaks in valuation has the potential to be much lower also in today's market environment.

Base value 3.00 SEK

DCF-valuation of Clean Industry Solutions.

CAGR 2021-2026	140%
Terminal value, MSEK	132
Discount rate	15.0%
Enterprise Value, MSEK	62
Cash, MSEK	14.8
Long term debt, MSEK	0
Market Cap, MSEK	77
Outstanding shares, mil.	25.5
Base case, SEK	3.0

About Clean Industry Solutions

Clean Industry Solutions, formerly Industrial Solar, invests in independently operating innovative companies which provide solutions for a sustainable industry and a circular economy. The current two subsidiaries, Industrial Solar GmbH and SolarSpring GmbH, offer solutions for the supply of clean energy and clean water for industry. The company was listed on Nasdaq First North Stock Market in July 2021 and is led by Christian Zahler as CEO and Finn Johnsson as chairman.

Industrial Solar GmbH offers products and services for the industrial energy transition. As an international leading technology and solution provider for renewable energy projects in the industrial sector the company provides technologies and services for clean energy solutions and its projects combine engineering expertise with efficient technologies that use energy from renewable sources on site. Besides its flagship technology – the innovative Fresnel collector designed for industrial process heating – Industrial Solar also offers other technologies such as photovoltaic, solar thermal collectors, heat pumps or absorption chillers. As a one-stop-shop Industrial Solar has realised turnkey solutions for customers in several industries.

SolarSpring GmbH is an equipment manufacturer of innovative membrane-based water treatment systems for industrial customers which either aim to reuse process liquids or where sensitive liquid products require concentration. Moreover, the treatment technology filters valuable raw materials such as gold, silver or other costly resources. The company is an absolute pioneer in the field of membrane distillation for industrial wastewater treatment.

The two subsidiaries of Clean Industry Solutions provide a wide range of customisable and environmentally sustainable solutions for energy supply and water treatment in the industrial sector. Providing turnkey solutions means a holistic approach where the companies handle the entire project life cycle, from initial analysis to fully operational systems. This includes engineering, procurement, construction, maintenance, and monitoring. This wide range of solutions are accompanied by several key technologies and systems, all customised according to the needs of the customer. The broad expertise the subsidiaries possess and their long history of work with renewable energy sources and water treatment solutions thus positions Clean Industry Solutions as a comprehensive supplier for technologies for a circular economy.

Industrial Solar and SolarSpring have entered into a number of strategic partnerships and participates in several public projects. These partnerships and projects work to create momentum in the industry, lowers the barriers for customers to transition to greener solutions and provides valuable funding. The industrial sector accounts for a large part of the global energy- and water use and the transition to greener solutions here is crucial. Both companies have received several awards and certifications for their technologies.

The company is still a distinct development-company, with relatively modest but increasing net sales. Net sales have been between SEK 2.2 and 0.8 million over the last three years. The company reported a loss of -13.5 MSEK in 2020 and -14 MSEK in 2021. The numerous technology development projects, which to a large degree are publicly funded, will provide the industry with even better and more sustainable energy and water solutions in the near future.

Turnkey solutions for clean energy

Clean Industry Solutions provides a range of holistic solutions for clean energy and clean water in the industrial sector.



Source: Industrial Solar, SolarSpring

Award winning technology

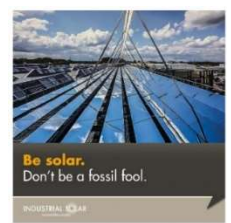
Clean Industry Solutions has been awarded several prizes and certifications, most notably the Solar Impulse Label and European Solar Prize in 2019.



Source: The company, EuroSolar

Transforming the industrial sector

Images from the latest marketing campaign "Don't be a fossil fool", targeting industry owners, and highlighting the need to transition to green energy sources.



Risks

The company faces several risks in both the short and long term. The company is still mainly in a pre-commercial stage, which means that revenues are modest. The technology and know-how have been proven multiple times and the bigger challenge now is creating the commercial traction needed to receive larger orders. The industrial sector at large is often very cost-sensitive, meaning that the solutions used needs to be profitable. Current and previous customers are usually companies living off their “green” image and further market development and cost reductions are needed to reach a larger part of the market.

The company is also heavily dependent on public funding for the moment, as a large part of the income comes from different R&D projects. Whilst we still believe that the public attention and interest in environmentally friendly energy- and water sources will increase in the coming years, this still presents a risk to the company. Changing conditions for governments and other agencies could result in fewer projects or smaller funding amounts.

The cash position after the rights issue means that the company has funds for at least 10-12 months. In addition, the company is getting public funding from several R&D projects. The risk still exists however, that increased commercial efforts will increase the burn-rate, meaning that further capitalisation will be needed.

Overall, this leads to a large number of uncertainties in our forecasts. The projected revenue increases are large and should the commercial breakthrough take longer than expected the impact on our valuation would be material. The sector at large supports high valuations, but we are still facing many risks and uncertainties at this stage of the company’s journey.

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