

## Good risk/reward in the prospect portfolio

### Divestments important to demonstrate value

The financing solutions announced during the summer enable Hexicon to continue business development according to plan and to initiate divestments after important project milestones have been passed. This is significant as a large part of the company's value consists of the projects, and the value increases substantially when decisive permits are obtained. Analysguiden believes that the divestments will begin in the first half of 2024 and provide a positive cash flow from then on.

### Continued tough external environment negatively affects valuations

We believe too much is discounted, although many projects suffer from higher interest costs and high inflation that have driven up costs throughout the value chain. In order to complete projects, there is a clear political will, notably in the EU, to invest in offshore wind power. For example, the EU has a target of 60 GW of offshore wind power by 2030. In connection with this, an initiative (European Wind Power Action Plan) has been launched to facilitate financing through the EU Innovation Fund. Clear frameworks and support systems will also be introduced to benefit companies in the industry.

### Project portfolio exceeds market capitalization

We assess that the company's project portfolio has a value well above the current market capitalization, and among the most valuable projects is the 1 100 MW MunmuBaram project in South Korea. The Swedish Freja Offshore amounts to 4 500 MW in the project phase and another >2 000 MW in the prospect phase. Italy has a gross capacity of 7 100 MW in the project phase and another >2 000 MW in the prospect phase. Out of these, we believe that the South Korean project may be subject to divestment.

The target rate is slightly adjusted down due to external factors such as increased interest rates and high inflation, which negatively affect the project market. We estimate that the project portfolio, including the company's technology part, has an indicated value of SEK 1.9 per share. An obvious trigger would be for the company to divest all or part of a project at an attractive value. Another important signal will be the partner financing of TwinHub, the first project to use the proprietary technology.

## Hexicon

### Q3-update-2023

Date 21 december 2023  
Analyst Joakim Kindahl

### Facts

Industry Energy  
Chairman of the Board Hans von Uthmann  
CEO Marcus Thor  
Year of Listing 2021  
Stock List Nasdaq First North  
Ticker HEXI  
Share price SEK 0.45  
No. Of shares, mln 363.8  
Market cap, MSEK 164  
Net debt, MSEK 151  
Enterprise value (EV), MSEK 315  
Web site www.hexicon.eu

### Share price development last year



Source: NasdaqOMX, Analysguiden

### Forecasts and key figures, MSEK

	2021	2022	2023p	2024p
Net revenue	23	12	20	350
EBITDA	-46	-126	-240	105
EBIT	-50	-161	-260	70
Pre-tax profit	-51	-171	-236	45
CF. After financing	-101	-274	-160	10
Financing	283	81	113	0
Cash	290	87	40	50
Earnings per share	neg	negSEK	-0.42 SEK	0.08
Dividends per share	-	-	-	-
Revenue growth		-50%	72%	1650%
Operating margin	neg	neg	-1300%	neg
Net debt	-288	-8	130	80
P/E	-	-	-1	6
EV/EBIT	-	-	-1	4
EV/Sales		27.1	15.7	0.9

Source: The Company, Analysguiden

## Investment case

### Two business prongs on the emerging market

Hexicon's strategy is based on creating value by developing technology-independent projects for floating wind power while developing the patented and pioneering technology "TwinWind". The project development already generates revenue, which should be possible to increase in 2024–2025. The technology solution is potentially the long-term value driver, with recurring license revenues from partners that manufacture the TwinWind platform. Hexicon applies a distinct partner strategy in both projects and technology, which along with the focus on early project phases, limits the capital requirement.

### Interesting and diversified project portfolio

Hexicon has a project in South Korea, MunmuBaram, which has passed the initial phase. Hexicon's share in 2025–26 could then be worth over SEK 1 billion. The company also has large projects in both Sweden and Italy. If we include projects in England, Scotland, South Korea and prospects in South Africa, Spain, Portugal, Greece, Ireland, and others, we can see an interesting and well-diversified portfolio. Furthermore, the company's establishment with a local organization in the USA opens up opportunities, both on the project side and, above all, in the long term for TwinWind. The objective is to achieve ongoing revenues from Europe, Asia, and the USA by 2025.

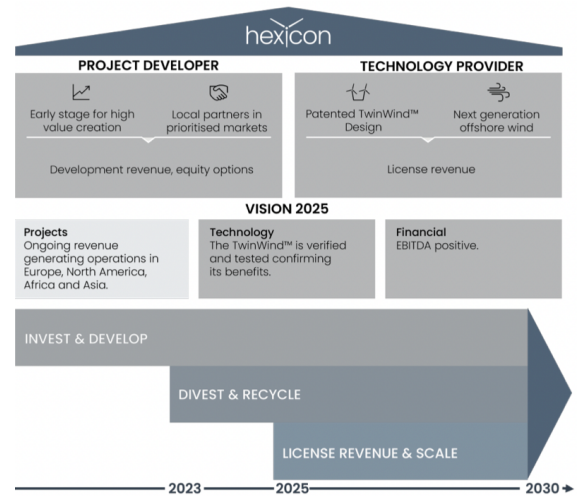
### The technology is still unproven

With a market expected to grow rapidly, where highly capitalized players have already made commitments to support this, good technical solutions will create great opportunities. Hexicon is at the forefront with its two-turbine solution, though a few years behind other solutions. The technology will be proven in the UK TwinHub project. The 32 MW commercial project is planned to be operational in 2025 but may be delayed as financing is not yet in place.

### High potential, but also high risk

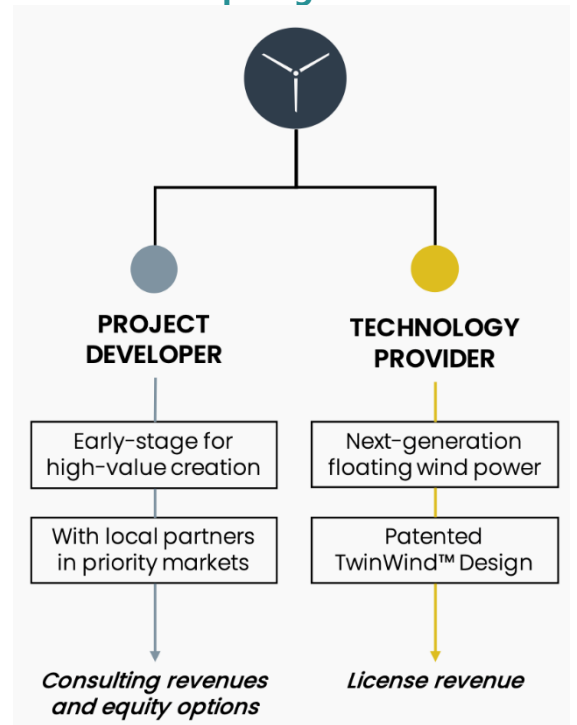
The strategy of a well-diversified project portfolio, often co-owned with local and highly capitalized partners, has a good chance of creating value. Not all will develop according to plan, but those that do are expected to grow in value. The project activities allow for faster commercialization when the technology is proven. Together, this creates great opportunities for Hexicon, while the risk may be considered high.

## The company's strategy & vision



Source: The Company, Q4 report 2022.

## Two business prongs



Source: The Company

## Twinhub

The TwinHub project will be the first full-scale test of the validity of the patented TwinWind technology. The company is negotiating with several potential financing partners, and a co-financing agreement would be an important milestone. This agreement is estimated to be a little more than six months away. The need for investment in this project is in the order of SEK 2 billion and all or most of it is intended to be taken by a partner. Hexicon plans for a final investment decision to be made in 2024. Operations are expected to start in 2026, although there is a risk of delay, given that progress is behind schedule. In the coming six months, the exact cost calculations will be completed, among other things. The development up to the investment decision is financed under the Glenmont program.

The technology optimizes energy production in a given sea area by mounting two wind turbines on a floating foundation. The technology is patented in many markets.

## Three applications in Sweden

The jointly owned Freja Offshore has submitted a total of three permit applications for offshore wind power. With a capacity of 2 500 MW, the floating park called Mareld on the West Coast in Sweden has the potential to deliver 9–12 TWh annually, corresponding to more than half of the electricity consumption of the entire Västra Götaland region. Most of the West Coast region imports its electricity and plans to meet the expected increase in electricity consumption by establishing new wind and solar power. Cirrus on the south-east coast has a capacity of 2 000 MW. In October, the company submitted the third application, Dyning, which is intended to be located off the east coast and has a potential of 10 TWh/year.

The applications were submitted to the government as the planned wind farm is outside the territorial boundary. As a first step, the government sends the documentation to the relevant county administrative board and municipality for evaluation, among others.

Like all other Hexicon projects, excluding TwinHub, the projects in Sweden are technology independent. This means that the value of the projects can be realized even if Hexicon's own technology is delayed or does not prove competitive.

## TwinWind

Patented floating platform with two turbines



Source: The Company

## 4 projects in Sweden

All applications are planned for 2023



Source: Frejaoffshore.se

## New legislation expected in Italy

Hexicon operates in Italy in a joint venture company with a local partner. The company has secured the right to water areas for a potential capacity of 7 100 MW. New legislation is expected to be decided in spring 2024, specifying what applies to offshore wind power. After that, Hexicon can be expected to partly intensify sales processes of parts of the project assets and partly increase the pace of the projects.

Floating wind power is well suited in Italy, with its long coastline, deep waters, and high need for renewable energy. The country aims to generate 55% of its total electricity production from renewable energy by 2030. The EU Green Deal program contributes to the current high level of progress in the area. With its total projects and prospects of 9 GW, Hexicon is the largest player.

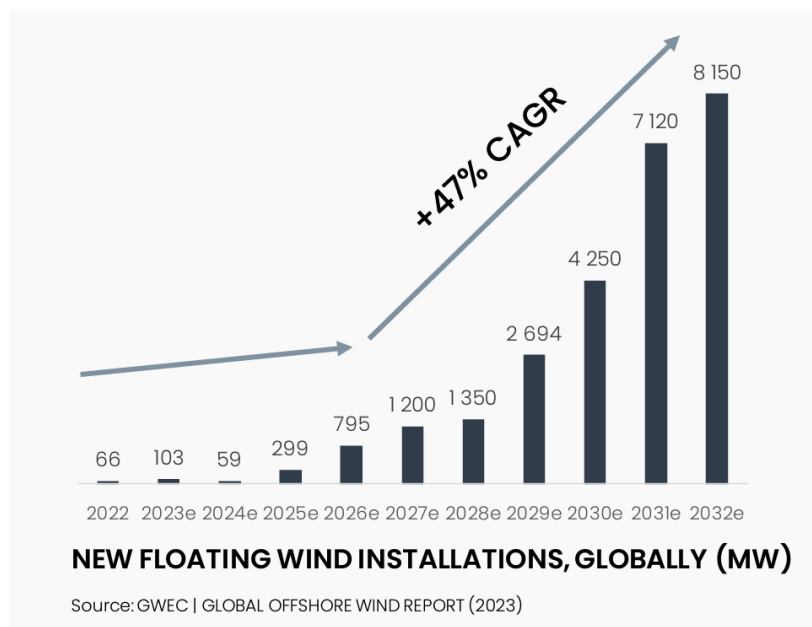
## MunmuBaram

MunmuBaram is intended to be one of the world's largest floating wind parks, with a capacity of 1.1 GW that can supply around one million households with electricity. Since 2018, it has been run as an increasingly larger project, with some 60 employees, mainly from Shell, currently working on it. Total investment cost is estimated to be around SEK 50 billion. Hexicon will probably divest its share before hardware investments need to be made, while the strategy for the project's primary owner, Shell, is more long-term.

Pricing policies and production licenses are in place for MunmuBaram. A grid connection agreement has been further delayed and is now expected in the first half of 2024. There is already a memorandum of understanding in place with the relevant authority. The next step after the grid connection agreement is to secure the key part of the supply chain and complete the environmental impact assessment. A final investment decision is expected in 2025, with production starting in 2027.

## General market development

Overall, floating wind installations are expected to grow strongly and steadily for a long time. Between 2027 and 2032, the annual rate is expected to be around 47% according to the GWEC “Global Offshore Wind Report 2023”.



## Large and diversified project portfolio

### PROJECTS

Project info	South Korea	South Korea	Scotland	Sweden	England	Italy	South Africa
<b>Name</b>	MunmuBaram	Pohang	Pentland Floating Wind Farm	Freja Offshore	TwinHub	AvenHexicon	Genesis Hexicon
<b>Estimated gross capacity</b>	1,100+ MW	900 MW	100 MW	4,500 MW	32 MW	7,100 MW	~800 MW
<b>Hexicon's share</b>	20%	29%	10%	50%	100%	50%	50%
<b>Partner(s)</b>	Shell	Hexicon Korea	CIP	Mainstream Renewable Power	-	Avapa Energy	Genesis Eco-Energy
<b>Target timeline for FID<sup>1</sup>/COD<sup>2</sup></b>	2025/2027	TBA	2024/2026	2027/2029	2024/2026	TBA	TBA

### PROSPECTS

Project info	Ireland	Italy	Sweden
<b>Name</b>	TBA	AvenHexicon	Freja Offshore
<b>Estimated gross capacity</b>	~2,000 MW	2,150 MW	2,000+ MW
<b>Hexicon's share</b>	100%	50%	50%
<b>Partner(s)</b>	Killybegs Fishermen's Org.	Avapa Energy	Mainstream Renewable Power

<sup>1</sup> FID – Final Investment Decision

<sup>2</sup> COD – Commercial Operational Date

Source: The Company

## Financial position & cash flow

Hexicon has a cash position of MSEK 42.8 at the end of September and a negative cash flow from operating activities of MSEK 44.9. In July, the company entered into a credit facility agreement amounting to MSEK 75. Hexicon states that this will ensure liquidity until summer 2024.

Additionally, the company has a MEUR 45 project development loan from Glennmont that will finance the projects going forward. The loan from Glennmont is secured by the subsidiary Hexicon Holding AB, which in turn owns the project companies MunmuBaram, Freja Offshore, TwinHub, and AvenHexicon. For the credit facility of MSEK 75, the patents owned by Freja Offshore AB have been pledged as securities.

The most important items for cash flow in the coming years are how the company solves the financing of the first complete TwinWind, revenue from the sale of project rights, and the capital requirement for acquiring new projects and the further development of existing projects.

## Valuation

The new long-term financing solution enables Hexicon to wait for the right time to carry out divestments from the project portfolio. The project evaluation only includes those expected to have reached the “Mid” or “Late” phase and assumes continued development of these projects. The technology part is included at MSEK 250 (P/S 10 on expected licensing revenue in 2026).

We have adjusted our valuation range as a consequence of external factors such as inflation and interest rates. This has affected business activity and time to conclusion.

Analysguiden bases the target price on an assessment of the estimated current value of the project portfolio. Given the phases the projects are in, we assess that they should currently be valued at the lower end of our valuation range. Only 20% of the project value in the “Early” phase is included to take the uncertainty of early phases into account. Prospectuses are not included for reasons of prudence. The technology component is discounted to the present value as above. With the final adjustment for net debt, we end up with a target price of SEK 1.9 per share. As shown in the chart on the right, the longer the projects can be taken, the higher the value. However, this comes at an increased risk and, in some cases, relatively high investment costs.

Our indicated value is reduced, mainly as a consequence of external factors that have led us to lower the valuation in the range. The upside from current levels is, nevertheless, huge. We consider divestments to be of great importance in highlighting the portfolio’s values and thus contribute positively to the share price. If one were to theoretically divest Munmu Baram and Pentland at a value in our lower range, it would mean (MSEK 347 + 16 = 362) about SEK 0.90 per share compared to the current price of SEK 0.45.

## Today’s project portfolio

Project December 2023	Country	Status	Capacity (MW)	Hexicon’s share	Net capacity (MW)	Value low (MSEK)*	Value high (MSEK)*
Munmu Baram	South Korea	Mid	1 100	20%	220	347	866
Pentland	Scotland	Mid	100	10%	10	16	39
TwinHub	England	Mid	32	100%	32	50	126
Freja Offshore	Sweden	Early	4 500	50%	2 250	319	3 544
Pohang	South Korea	Early	900	29%	261	37	411
Several	Italy	Early	7 100	50%	3 550	503	5 591
GenesisHexicon	South Africa	Early	800	50%	400	57	630
Prospect	Several	Prospect	6 000+		4 000+	?	?
<b>Total “Mid-Late”</b>						<b>413</b>	<b>1 032</b>
<b>Total “Early”</b>						<b>916</b>	<b>10 176</b>
<b>Total value “Mid-late” + 20% “Early”</b>						<b>596</b>	<b>3 067</b>
<b>SEK per share adjusted for net debt Q3-23 and “technology part”</b>						<b>1.9</b>	

\* Value low refers to the lowest level in the price range that exists based on previous transactions. The price range that Analysguiden uses is for precautionary reasons lower than what Hexicon presented in connection with the Q3 report 2021.

## Exciting divestments from 2024

Initially revenue from projects – technology revenue later on

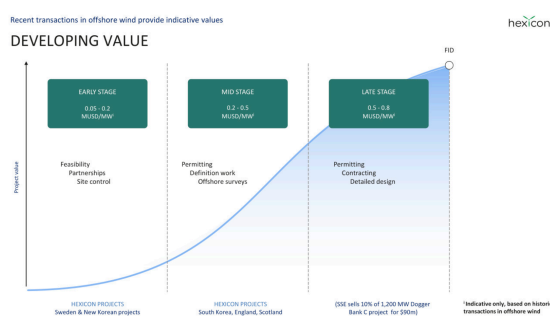
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Source: Analysguiden

## Possible value development in projects

MunmuBaram in an interesting phase



Source: Hexicon Q3-report 2021



## Risks (non-exhaustive)

Hexicon is a high-risk investment with great potential. The company's two business prongs reduce the risk compared to if it had been, for example, purely a technology company. The projects have value regardless of whether the technology succeeds and vice versa. However, examples of significant risks are market, price, technology, and financing.

The market for floating offshore wind technology has bright prospects, but is at an early stage. It is still not certain if this energy source will be sufficiently competitive. Another market risk is that local resistance sometimes puts a stop to projects, even if the risk far offshore is lower than for bottom-fixed and onshore wind power.

The price level for the different stages of the projects remains uncertain, with few references for similar projects. The price level will be affected by many factors, including interest rates and subsidy schemes, and may turn out to be lower than assumed by Analysguiden.

With its turbines, the company's technical solution, TwinWind, differs from those already launched. Hexicon is convinced that the solution is very competitive. It is patented, theoretically tested from many perspectives, and has been feasibility verified by DNV. However, there is still a lot to be done before it can be considered proven. In addition, there is a risk that the patent will continue to be challenged.

The company's new financing solution provides financial stability and flexibility. Nevertheless, it cannot be excluded that further capital raising may be required. The timing of divestments and the capital market's interest in financing not yet profitable companies is also a factor of uncertainty.

Hexicon's major ownership in what is intended to be one of the world's largest parks with floating technology, MunmuBaram, currently accounts for a significant part of Analysguiden's valuation. If unexpected stops or delays occur, this would significantly affect the price target.

**Are the market forecasts too bright?**

**The price level in areas intended for floating wind power is still uncertain.**

**TwinWind is in an early phase**

**Additional capital needs?**

**MunmuBaram important for the valuation**

## Previous analyzes

[Initial analysis March 21, 2022](#)

[Update on May 23, 2022](#)

[Update on August 26, 2022](#)

[Update on December 13](#)

[Update on March 13](#)

[Update on June 30](#)

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