

The value of the project portfolio increases

Important progress in South Korea

Rising global energy prices and an increasingly clear need for a forceful energy transition increase interest in offshore wind power and other fossil-free solutions. The market for floating wind technology is predicted to double annually over the next 20 years. Hexicon has a large and diversified portfolio of ongoing and possible projects that have been both expanded and refined in 2022. The most important expansion has taken place in South Korea, with an additional 450 MW in capacity. The most significant refinement relates to electricity production licenses obtained in the Munmu Baram project. Shell is the principle owner of this project, which looks set to become the world's largest floating wind farm. Hexicon's share is estimated to be worth MSEK 500-750 in 2024.

Important milestones ahead for TwinWind

Hexicon has two strategic prongs; technology-independent floating wind projects and its own patented technology "TwinWind". These reinforce each other commercially. TwinWind, which with its two turbines differs from already established solutions, is making progress in its development plan. The demonstration project will be in place by the end of 2023. Platform development with partner Worley is progressing. The company expects partner financing from one or two players later in 2022. Hexicon will also apply for development money from the EU's Horizon programme and the Swedish Energy Agency. Funding for the demonstration project is an important milestone. Another is bidding for guaranteed electricity prices over 15 years in the first commercial project with own technology (Cornwall, England). Results are expected here on July 8. Marine licenses are already in place. The project has the prerequisites to confirm the technology commercially, and is important as a complement to the demonstration platform in Norway.

Raising the target price to SEK 3.60

The required rate of return has increased in the current stock market and inflation climate. However, the increased value in the project portfolio justifies a certain upward adjustment of the price target. Interesting and potentially price-driving news can be expected during Q2-Q4 and refers to, among other things: revenue in connection with the introduction of new partners in certain projects, network connection agreement in important Munmu Baram and results regarding bidding in Cornwall. Price target: SEK 3.60 (3.54).

A sustainable re-valuation likely presupposes that the stock market climate is stabilized for this type of company within sustainable energy.

Note: A Swedish version of this report was published on May 23

Hexicon

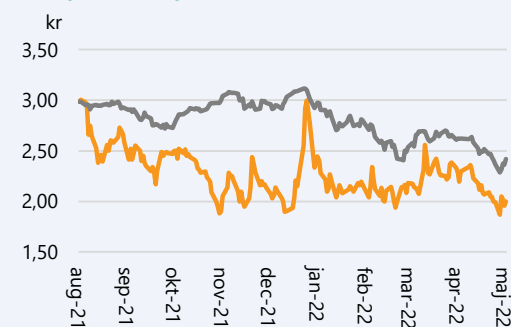
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Analyst Magnus Lindell

Facts

Industry Wind Power
Chairman of the Board Hans von Uthmann
CEO Marcus Thor
Year of Listing 2021
Stock List Nasdaq First North
Ticker HEXI
Share price 2,08 SEK
No. of shares, mln 363,8
Market cap, MSEK 757
Net debt, MSEK -244
Enterprise value (EV) 513
Web site www.hexicon.eu

Share price development after Hexicon's IPO



Source: Börsdata

	2021	2022E	2023E	2024E
Net revenue	23	55	75	125
Gross profit	-13	-5	5	47
EBITDA	-46	-45	-43	-11
EBIT	-50	-55	-55	-25
Pre-tax profit	-51	-55	-57	-35
CF. After financing	-101	-125	-243	-72
Financing	283	0	200	0
Cash	290	165	122	50
Earnings per share	neg	neg	neg	neg
Dividends per share	-	-	-	-
Revenue growth		139%	36%	67%
Operating margin	neg	neg	neg	neg
Net debt	-288	-165	78	150
P/E	-	-	-	-
EV/EBIT	-	-	-	-
EV/Sales		9,3	6,8	4,1

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 2022–2024. 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. This, and the focus on early project phases, limits the capital requirement.

Interesting and diversified project portfolio

Hexicon has a project in South Korea, Munmu Baram, which has passed the initial phase. Based on relatively conservative assumptions from existing price references, Hexicon's share in 2024 could be worth approximately MSEK 500-750. The company's second largest maximum capacity is located in Sweden and is in an early phase. If we include other projects in England, Scotland, South Korea, and prospects in South Africa, Spain, Italy, Ireland, and others, we can see an interesting and well-diversified portfolio. The company's establishment with a local organization in the USA opens up opportunities, not only on the project side but above all in the long term for TwinWind. The objective is to have ongoing revenues from Europe, Asia and the USA by 2025.

The technology is still unproven

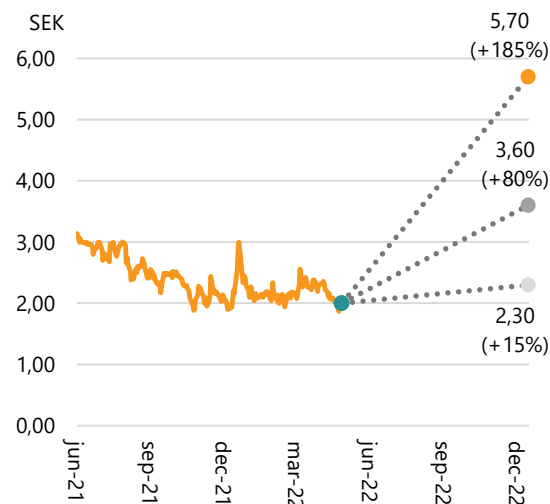
With a market that is expected to grow rapidly, and where highly capitalized players have already made commitments strengthening this, good technical solutions will have great opportunities. Hexicon is at the forefront with its two-turbine solution, though a few years behind other solutions. There is still a demonstrator project with a budget of MSEK 400-450, among other things, before the technology approaches commercialization. Once at that point, the business model with license revenue is both scalable and potentially very profitable.

High potential, but also high risk

The strategy of a well-diversified project portfolio, that is often co-owned together 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 business allows for faster commercialization when the technology is proven. Together, this creates great opportunities for Hexicon, while the risk may be considered high. The price target range is SEK 2.30 - 5.70, with the same logic as described in the initiation analysis.

Tempting potential

The stock's upside/downside in three different scenarios



Source: Analysguiden

Munmu Baram on a path towards MSEK 500

Possibly high value if the project is developed according to plan

Joint developer	Royal Dutch Shell
Distance to shore	70 km east off Ulsan
Water depth	120 – 140 m
Mean wind speed (@100 m)	8.1 m/s
Estimated gross capacity	1,300 MW
Hexicon's stake	10%

Source: The Company

Targets for 2025

	Projects Ongoing revenue generating operations in Europe, North America and Asia.
	Technology The TwinWind™ is verified and tested confirming its benefits.
	Financial EBITDA positive.

Source: The Company, ÅR 2021

Q1 2022

The company reported on progress in the operation's two business prongs in the Q1 report, where the most important are discussed on the first page of this update. Some additional comments on this year's development are:

- New joint venture established in Greece with a local partner. Hexicon thereby follows previous recipes for success from, among others, South Korea, where the company gains an advantage in the market by being in place early.
- Establishment in the USA was initially considered mostly from a long-term perspective, and then with a focus on the technology solution. Now the company sees an opportunity to also become a player in projects here, and then as an expert partner with less ownership together with highly capitalized players. Seven major auctions are underway, and Hexicon's local organization has a strong network, which, together with other experience, can open up opportunities.
- Hexicon is working on three projects in Sweden where applications to the government are expected to be submitted, starting at the end of this year. Environmental impact assessments are ongoing. The company's partner in this case, Norwegian Aker Offshore Wind (AOW), is about to merge with Aker Clean Hydrogen and become part of Aker Horizon, which has a market value of approximately SEK 13 billion. This is positive for Hexicon, as Aker Horizon is a larger and more stable party.
- Hexicon is far from the only player that intends to design offshore wind power. The interest is great. Svenska Kraftnät reports that they have applications relating to the connection of about 70 parks, however, most are bottom-fixed. The hope is that the local resistance will be less than for the cheaper onshore wind power. This is likely, at least for the parks that, like Hexicons, are located far offshore.
- A price level for electricity and production licenses is in place for Munmu Baram. A network connection agreement is expected during the autumn, and there is already a memorandum of understanding in place with the relevant authority. Hexicon is incrementally approaching the investment decision, which is estimated for 2024. In connection with this, Hexicon is expected to sell its ownership interest at a price that is then estimated to be over MSEK 500.
- The company has expanded with additional projects in South Korea, which now amount to 2100 MW with a 20% ownership interest. These are about 1.5 years behind Munmu Baram. Further extensions may be added during the year as Hexicon continues to exploit its "early-mover advantage".
- It should be possible for the quarter's sales of MSEK 6 (12) to be higher as an average during Q2-Q4, driven by partial divestments in the project portfolio. Cash flow after investments was MSEK -35 (-18), and is expected to worsen for both the full year 2022 and 2023.

TwinWind

Patented floating platform with two turbines








Source: The Company

Large and diversified project portfolio

	PROJECTS				
	 South Korea	 Scotland	 Sweden	 England	 South Korea
Name	Munmu Baram	Pentland Floating Wind Farm	Freja Offshore	TwinHub	TBA
Location	Ulsan	Dounreay	Multiple	Cornwall	East and SW coast
Estimated gross capacity	~1,300 MW	100 MW	+3,000 MW	32 MW	2,100 MW
Hexicon's stake	10%	10%	50%	100%	20%
Site	Secured	Secured	Identified	Secured	Secured
Partner(s)	Hexicon Korea, Shell	CIP	Aker Offshore Wind	Bechtel	Hexicon Korea
Target FID/COD	2024/2026	2025/2026	2026/2028	2023/2025	TBA
FID – Final investment decision COD – Commercial operational date				Gross projects: 6,000 MW Net projects: 2,000 MW	

Source: The Company. Q1-report 2022.

	PROSPECTS				
	 South Africa	 Spain / Portugal	 South Korea	 Ireland	 Italy
Name	TBA	TBA	TBA	TBA	TBA
Location	Richards Bay	Canary Islands, NW Portugal	East and SW coast	West Ireland	TBA
Estimated gross capacity	800 MW	TBA	TBA	TBA	800 MW
Hexicon's stake	50%	75%	20%	100%	50%
Site	Identified	Selection ongoing	Identified	Identified	Selection ongoing
Partner(s)	GenesisHexicon	WunderHexicon	Hexicon Korea	TBA	AvenHexicon
1 MW ≈ 1,000 households, 'rule of thumb' industry standard				Gross prospects: 4,000 MW Net prospects: 2,000 MW	

Source: The Company. Q1-report 2022.

Financial position

Hexicon currently has a stable financial position, with net cash of MSEK 244. Hexicon has historically had a relatively low burn rate. In line with the establishment of the organization and increased investments, the negative cash flow after investments is now increasing. Last quarter it amounted to MSEK -35, and in the last 12 months to MSEK -118.

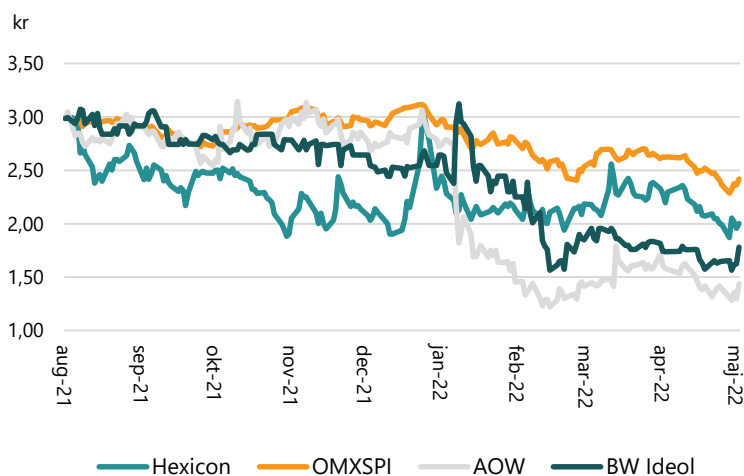
The most important items for cash flow in the coming years are how the company solves the financing of the demonstration project, income from the sale of project rights, and the capital requirement for the acquisition of new projects and further development of existing projects. The demonstration project is estimated to amount to MSEK 400-450, and Hexicon expects to account for up to half of this. The plan is that the remaining part be covered by contributions from one or more partners in exchange for them then receiving future royalties or other benefits. Hopefully this can also be supplemented with development funds from the EU's Horizon programme, or the Swedish Energy Agency. The latter may be in place in the autumn.

Analysguiden estimates that additional capital will be raised in 2023, either through loans or new share issues. Positive cash flow prior to financing is expected to be achieved no later than 2025 in conjunction with the divestment of Munmu Baram.

Share performance

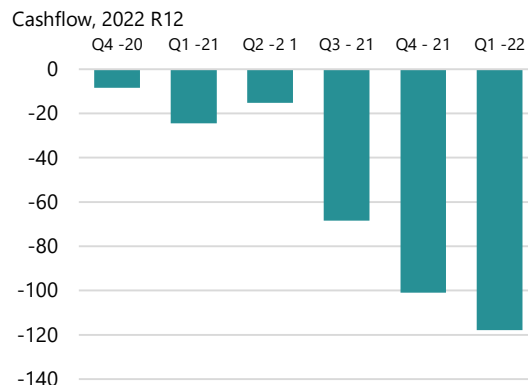
The share was listed in June 2021, following an oversubscribed issue, at a subscription price of SEK 3.00. The share has since been mainly traded below SEK 3.00, and at a minimum of SEK 1.90. The business has developed according to plan, and the weak price development is mainly explained by the fact that the renewable energy sector has underperformed, for example, the closest comparable companies Aker Offshore Wind and BW Ideol. The analysts' collective's target prices are significantly higher for the entire sector.

Share price development after Hexicon's IPO



Source: Börnsdata

Cashflow after investments



Source: Börnsdata

Valuation

The approach with regard valuation is dealt with in detail in the initial analysis. It is based on a supposed Hexicon in 2024. In recent months, comparable companies, such as Aker Offshore Wind and BW Ideol, have had a weak price development, which has a negative effect on the relative valuation. The required rate of return on companies with profits far into the future has generally increased, which is also negative for the valuation.

On the other hand, the positive development of the project portfolio and the higher USD exchange rate have a positive effect. The analysis guide's forecast for results, cash flow, and the potential of the technology component are unchanged compared with March.

The valuation results in roughly the same price target as in March, namely SEK 3.60.

Another way of highlighting the currently low valuation is to only base it on the value of the project portfolio, and focus on the lowest part of the price ranges reported in the initial analysis. The value of the project portfolio will then be MSEK 670, excluding the value of the prospectus and Hexicon's technical component. The MSEK 670 can be compared with a company value of MSEK 513 at a price of SEK 2.08.

Today's project portfolio

Project May 2022	Country	Status	Capacity (MW)	Hexicon's share	Net capacity (MW)	Value low (SEKm)*	Value high (SEKm)*
Munmu Baram	South Korea	Mid	1300	10%	127	255	637
Pentland	Scotland	Mid	100	10%	10	20	50
Twinhub	England	Mid	32	100%	32	64	160
Freja Offshore	Sweden	Early	3000	50%	1500	270	3000
Sydkorea 2	South Korea	Early	1700	20%	340	61	680
Prospect	Several	Prospect	4000	50%	2000	?	?
Total "Mid-Late"						339	847
Total "Early"						331	
Total project portfolio						670	

*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.

Cash flow will improve from 2024

Proceeds from projects are gradually increasing

	2021	2022E	2023E	2024E
Net revenue	23	55	75	125
Gross profit	-13	-5	5	47
EBITDA	-46	-45	-43	-11
EBIT	-50	-55	-55	-25
Pre-tax profit	-51	-55	-57	-35
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Cash	290	165	122	50

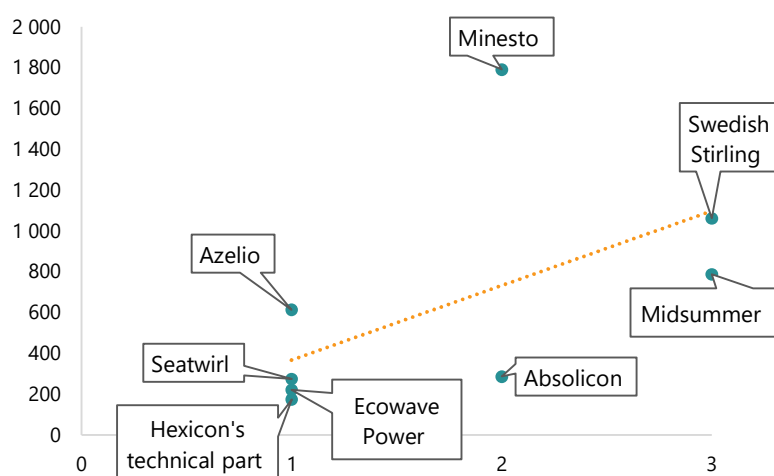
Source: Analysguiden

Relative valuation compared to other technology companies

An additional step in a conservative direction is to take the premise that only those projects that have come furthest in development, and thereby have a lower risk (status "Mid"), have a value, and that projects in earlier phases are too uncertain to value. The "Mid" projects have at present a prudent value of MSEK 339. If we remove these from the company value, an implicit value for the technology component remains, which amounts to MSEK 174. This is also relatively low in relation to comparable technology companies.

Below is a comparison of the enterprise value (EV) for some Swedish companies with operations related to renewable energy. The companies are placed in three phases, based on an assessment of where they are in their development. All of these companies are comparable in that they have their own technology that targets a potentially very large market. If they succeed, the impact can be significant. Those who have proven technology and are closest to commercialization, or already have current revenue, are valued higher, which is expected.

Enterprise value (EV), MSEK, for companies with their own technology in renewable energy



Phase 1: Technology not yet "ready" or proven to be competitive

Phase 2: Commercialization within 2 years

Phase 3: Clear commercial breakthrough

Source: Börndata, 20220517, Analysguiden

Risks

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. Examples of significant risks are market, pricing, 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. The market risk can be considered to have decreased somewhat in the past year. One example is the significant interest in the Scottish auction regarding rights to areas of water where highly capitalized players eventually shared 15 GW of potential capacity for floating wind technology for a price of around SEK 5 billion. The Swedish government has clarified that offshore wind power is an important component in climate transition by commissioning the Swedish Power Plant Network (Affärsverket Svenska Kraftnät) to secure the infrastructure. The South Korean market, which is important to Hexicon, has granted new rights. 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 various stages of the projects is starting to settle somewhat, with gradually increasing references. The price level will be affected by many factors, including subsidy systems, and may appear lower than the Analysis Guide has assumed.

The company's technical solution, TwinWind, is, due to its turbines, a different solution than those that have already been 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. Worley is contracted to handle the development of the first full-scale version. However, there is still a lot to be done before it can be proven.

Hexicon has shown that the strategy of divesting parts of the project portfolio works, and in that way keeps down the capital requirement. The company's current net cash creates some latitude, which is good as it provides the opportunity to sell at the right time and to the right party. Ongoing consulting revenues also help to keep down the "burn rate". The company has flagged that it assesses there to be an additional capital requirement of MSEK 130 before it becomes sustainably cash flow positive. However, the early stage of operations means that there is a risk of an even greater capital requirement, which normally leads to dilution issues.

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 requirements

Previous updates

Initial coverage report – 28 april 2022

<https://www.aktiespararna.se/analysguiden/nyheter/initial-coverage-report-hexicon-great-potential-offshore-wind-technology>

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