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Company Comment	IT/Technology	Denmark	26 July 2021
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Game changing legislation is finally in process

On 14 July 2021, the EU adopted a series of legislative proposals with the target to achieve climate neutrality by 2050. The proposal has included several new provisions that are directed at data center operators, server manufacturers and local authorities to promote waste heat recovery. We consider the new legislation as a potential game changer for Asetek's Datacenter. Our mid-point DCF valuation at NOK 160 but a Bull case on Datacenter points to a fair value of NOK 235.

A paradigm shift to create huge market tailwinds for Asetek's DTC liquid cooling technology

In the new Energy Efficiency Directive (EED), the EU has adopted several proposals to promote reusing waste heat from data centers. A quote from the EED: *"All the district heating and cooling systems should aim for improved ability to interact with other parts of the energy system in order to optimise the use of energy and prevent energy waste by using the full potential of buildings to store heat or cold, including the excess heat from service facilities and nearby data centers."*

Asetek's direct-to-chip (DTC) liquid cooling is one of few technologies that is able to achieve waste heat recovery and energy efficiency for data centers. We believe the new provisions will trigger a paradigm shift in the European data center industry and therefore provide significant sales growth opportunities to Asetek.

The new provisions to promote waste heat recovery from both market demand and supply point of views

In our view, the new provisions are directed at promoting waste heat recovery, both from a **market demand** point of view (local authorities): e.g.

"For municipalities with a population > 50,000 the development of local heating and cooling plans that include waste heat recovery is now mandatory."

"Efficient district heating and cooling systems are mandated for all new installations that use increasing parts of its energy mix from excess heat (goes up from 2025 to 2050)."

and **supply** point of view (data center operators and server manufacturers): *"For newly planned or substantially refurbished data centers (>1MW) a cost-benefit analysis (or an energy audit) has to be carried out. That analysis needs to specifically include cooling systems that allow removing or capturing the waste heat at useful temperature level with minimal ancillary energy inputs."*

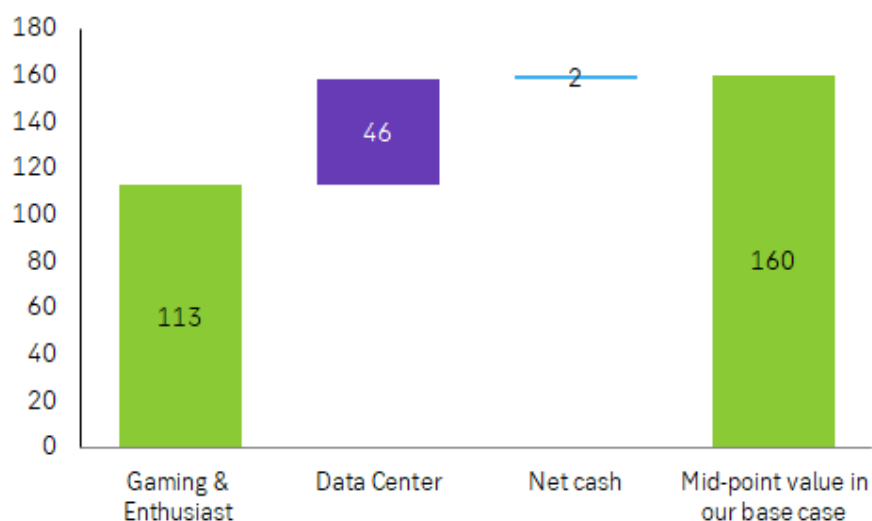
We argue the new legislations will likely enforce the market participants to switch to DTC liquid cooling more rapidly than we have expected for, which makes our Bull case on Asetek's Datacenter business to appear more realistic.

SEB forecasts for Asetek's Datacenter business, Base case scenario

	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
TAM to Asetek (USDm)	530	636	756	900	1,069	1,270	1,508	1,791	2,127	2,526
- market growth (%)		19%	19%	19%	19%	19%	19%	19%	19%	19%
Asetek sales (USDm)	5	5	4	3	8	12	17	21	25	30
Market share	1%	1%	1%	0%	1%	1%	1%	1%	1%	1%

Source: SEB, Asetek

Base case: Mid-point DCF value of NOK 160 per share

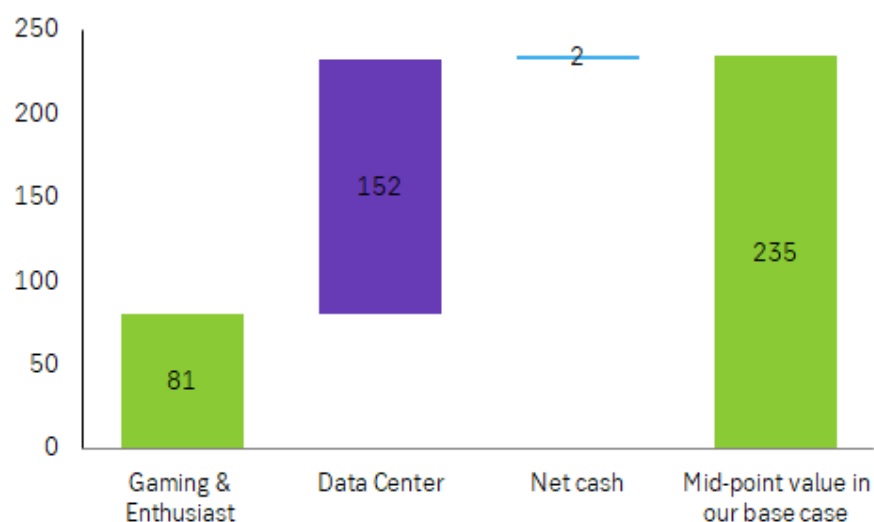


Source: SEB

The bull case scenario on Datacenter looks more realistic

The market of data centre liquid cooling technologies was worth USD 1bn in 2020 and currently the company has less than 1% market share. Market research company Global Market Insights estimates the market will grow at a CAGR of 19% in the coming years and reach USD 2.5bn by 2025. Our current mid-point DCF value of NOK 160 per share is based on some conservative assumptions that Asetek has only 1% market share (annual sales of USD 30m) by 2025. In the bull case we assume that Asetek will gain market share and reach 2% market share by 2025. Assuming all else being equal, our bull case scenario indicates a fair value of NOK 235 per share.

Bull case: Mid-point DCF value of NOK 235 per share



Source: SEB

Key figures

(USDm)	2020	2021E	2022E	2023E
Revenues (m)	73	95	104	115
Adj. EBIT	11	14	18	21
PTP (m)	9	14	18	21
EPS	0.35	0.39	0.51	0.61
EPS (adjusted)	0.35	0.39	0.51	0.61
DPS	0.00	0.00	0.00	0.00
Revenue growth (%)	33.9	30.4	9.6	10.8
EPS growth (%)	n.a.	11.5	29.3	20.1
Operating margin (%)	15.0	14.6	17.1	18.5
ROCE (%)	23.1	23.8	25.0	24.9
Net Debt/EBITDA (x)	(1.6)	(0.3)	(0.1)	(0.0)
PER (adjusted)	36.0	26.6	20.6	17.1
Dividend yield (%)	0.0	0.0	0.0	0.0
Free Cash Flow Yield (%)	2.4	(2.6)	(1.1)	(0.4)
P/BV (x)	7.0	4.9	3.9	3.2
EV/EBIT (x)	28.2	19.2	15.1	12.6
EV/Sales (x)	4.23	2.80	2.58	2.34

Source: SEB

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