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Ceres Power (CWR LN)

Key takeaways from London visit

NOT RATED

Current Price	**GBP460.8**

China Capital Goods

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Stock Data

Mkt Cap (GBP mn)	985
52w High/Low (GBp)	871.50/92.35
Total Issued Shares (mn)	213.8

Source: FactSet

We met with Ceres Power's IR team in London, UK last week to understand more about the latest development of the company. Key takeaways: (1) the steel-based technology remains Ceres' key competitive edge in the Solid Oxide Fuel Cell (SOFC) industry; (2) the unique licensing model (asset-light) works well and Ceres targets more potential intake of manufacturing partners; (3) extension of fuel cell useful life and cost reduction will be key drivers in the future. Ceres' SOFC technology has become a feasible solution to meet the strong AIDC power demand given the prolonged availability of traditional solutions such as gas turbine and nuclear power.

- **Company background.** Founded in 2001, Ceres Power Holdings plc is a UK-based clean technology leader specializing in solid oxide fuel cells (SOFC) and electrolyzers (SOEC). Operating on an asset-light licensing model, the company licenses its proprietary technology to global partners such as **Doosan Fuel Cell (336260 KS, NR), Weichai Power (2338 HK / 000338 CH, BUY),** and **Delta Electronics (2308 TT, NR)** to manufacture clean energy systems. Weichai is the largest shareholder of Ceres with an equity interest of ~17.8%.
- **Key differentiation.** Ceres' SOFC products are steel substrate with a layer of in-house produced ceramic. The unique technology enables the fuel cell to operate at only 450-630 degrees Celsius, much lower than the conventional SOFCs.
- **Licensing model.** Ceres adopts an asset-light model by licensing the technology to manufacturing partners. The licensing agreement enables partners to establish production base, produce SOFCs (or SOEC) and systems by leveraging Ceres' technology. These manufacturing partners are free to select their suppliers and target markets (i.e. not exclusive). In return, Ceres receives upfront payment of ~US$40-50mn during the construction stage (~2 years at present), followed by royalty income upon commercialization (~US$50-100/kW of SOFC system). Through the licensing model, Ceres will be able to scale up its technology rapidly. Ceres targets to win more manufacturing partners in the foreseeable future.
- **Protection of technology.** Ceres is confident of protecting its technology through (1) patents, (2) careful screening for reliable and quality manufacturing partners, and (3) the in-house production of key materials.
- **Key drivers: extension of product useful life + cost reduction.** At present, the useful life of SOFCs is ~5 years. Ceres will continue to invest in R&D in order to achieve useful life extension. On the cost side, Ceres believes that the total cost of SOFC system could be 30% below the major competitor when manufacturing partners reach GW-level production capacity.

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