

2G Energy AG

Germany / Cleantech
 Primary exchange: Frankfurt
 Bloomberg: 2GB GR
 ISIN: DE000A0HL8N9

Final 2015 figures

RATING
BUY

PRICE TARGET
€25.00

Return Potential 38.9%
 Risk Rating Medium

ON TRACK FOR PROFITABLE GROWTH

On 25 May, 2G Energy reported final 2015 figures, which corresponded to preliminary figures. Sales amounted to €153m and EBIT was €4.8m. Revenues were driven by a strong performance of the Service segment and high foreign sales. EBIT was below the original budget due mainly to one-off costs for restructuring and business expansion. The company reiterated its 2016 guidance (sales €150-170m, EBIT margin 3-5%). Given the strong start in Q1 (total output: €35.6m) and the very high order backlog (end April: €88m) we still believe that 2G will reach the upper end of the guidance. We reiterate our Buy rating and the €25.00 price target.

2016 guidance considers regulatory risks 2G is guiding towards sales of €150-170m and an EBIT margin of 3-5%. The forecast takes into account that the EU commission is still withholding its approval of the 2016 German Cogeneration Act. As we still believe that the EU will finally approve the act we stick to our forecast which is at the upper end of the guidance. Management sticks to its medium-term target of €300m revenue at a double-digit EBIT margin by 2020.

Restructuring and international expansion burden EBIT Revenues of €153m were very solid given the fact that the previous year's figure (€187m) was positively affected by a temporary regulatory boom in Germany. EBIT of €4.8m was burdened by one-off costs of €3m for restructuring and business expansion. The share of material cost (relative to total output) declined significantly from 70.7% to 65.0%. This figure is excellent. However, personnel costs rose by €3.9m or 15% to €29.3m and theratio to total output rose to a high 18.9% (2014: 13.4%). The number of staff increased to 607 from 580 due mainly to the personnel of the US subsidiary which was not fully consolidated in the previous year. Furthermore, the reduction of the sales force at the German subsidiary 2G Home resulted in one-off costs (personnel costs of 2G Home: €2.0m vs. €1.3m in 2014). Other operating costs rose 4% to €19.9m. EBIT of €4.8m correspond to a relatively low margin of 3.1%.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2013	2014	2015	2016E	2017E	2018E
Revenue (€m)	126.13	186.61	152.88	174.10	187.00	200.09
Y-o-y growth	-13.9%	47.9%	-18.1%	13.9%	7.4%	7.0%
EBIT (€m)	3.12	11.29	4.77	8.32	13.81	15.01
EBIT margin	2.5%	6.0%	3.1%	4.8%	7.4%	7.5%
Net income (€m)	0.89	6.50	2.78	5.58	9.38	10.14
EPS (diluted) (€)	0.20	1.47	0.63	1.26	2.12	2.29
DPS (€)	0.00	0.00	0.37	0.37	0.37	0.37
FCF (€m)	0.70	4.42	-1.26	0.47	4.72	6.24
Net gearing	-6.9%	-11.0%	-8.0%	-5.4%	-9.6%	-14.8%
Liquid assets (€m)	5.18	25.92	14.42	10.48	11.89	10.15

RISKS

The main risks include regulatory changes, internationalisation, increasing competition, high natural gas and low electricity prices, and low share liquidity.

COMPANY PROFILE

2G Energy AG is a leading producer of combined heat and power plants (CHP). The company offers a wide product range of plants with a capacity from 20 kW to 4 MW and addresses both the biogas and the natural gas market. 2G is headquartered in Heek, Germany, and has an additional production site in the US.

MARKET DATA

As of 27 May 2016

Closing Price	€ 18.00
Shares outstanding	4.43m
Market Capitalisation	€ 79.74m
52-week Range	€ 16.38 / 22.65
Avg. Volume (12 Months)	5,618

Multiples	2015	2016E	2017E
P/E	28.6	14.3	8.5
EV/Sales	0.5	0.4	0.4
EV/EBIT	15.9	9.3	5.4
Div. Yield	2.1%	2.1%	2.1%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2015

Liquid Assets	€ 10.15m
Current Assets	€ 72.38m
Intangible Assets	€ 5.79m
Total Assets	€ 95.86m
Current Liabilities	€ 27.56m
Shareholders' Equity	€ 52.65m

SHAREHOLDERS

Christian Grotholt	30.0%
Ludger Gausling	25.3%
Free Float	44.7%

The financial result was largely driven by interest expenses of €0.4m. EBT was thus €4.5m. Higher taxes (€2.0m vs. FBe: €1.4m) were the main reason for a net result that was lower than our forecast (€2.8m vs. FBe: €3.2m).

Figure 1: 2015 results vs. forecasts

All figures in €m	Q4/15A	Q4/15E	delta	Q4/14	delta	2015	2014	delta
Sales	68.58	68.60	0.0%	74.41	-7.8%	152.88	186.61	-18.1%
EBIT	5.89	5.92	-0.5%	5.21	13.0%	4.77	11.29	-57.7%
EBIT margin	8.6%	8.6%	-	7.0%	-	3.1%	6.0%	-
Net income	4.05	4.42	-8.4%	4.42	-8.5%	2.78	6.50	-57.2%
Net margin (%)	5.9%	6.4%	-	5.9%	-	1.8%	3.5%	-
EPS diluted (€)	0.91	0.99	-8.1%	1.00	-8.8%	0.63	1.47	-57.1%

Source: First Berlin Equity Research, 2G Energy AG

Balance sheet remains strong The balance sheet relations remained largely stable. The balance sheet total increased 3% to €96m from €93m. Working capital increased almost 6% despite the decline in revenues (see figure 2). The working capital ratio thus increased from the very low 2014 figure of 18.6% to 24.0%.

Figure 2: Working Capital

All figures in €m	2015	2014	delta
Inventories	32.2	31.2	3.5%
Receivables	24.6	22.0	12.0%
Payables	5.4	5.6	-4.1%
Prepayments received	14.8	12.8	15.2%
Working Capital	36.7	34.7	5.8%
Revenues	152.9	186.6	-18.1%
Revenues / Working Capital (%)	24.0%	18.6%	+5.4 PP

Source: First Berlin Equity Research, 2G Energy AG

The cash position was 15% y/y lower at €10.1m (2014: €11.9m). Financial debt was slightly reduced to €5.9m from €6.1m in 2014. The net cash position thus amounted to €4.2m (2014: €5.8m). The continuous net cash position shows that 2G has been generating sufficient free cash flows to finance the expansion largely with internal means. Equity was slightly higher at €52.6m (2014: €52.1m). The equity ratio decreased slightly from 56.2% to 54.9% but remains on a very solid level.

Positive operating cash flow Operating cash flow (€2.1m) was fuelled by the net profit (€2.6m) and depreciation (€3.2m), but burdened by a higher working capital requirement (€-2m). CAPEX of €3.3m resulted in a free cash flow of €-1.3m. Cash flow from investing was only €-1.0, due mainly to a cash inflow of €2.1m from the acquisition of consolidated companies. Cash flow from financing was also negative and amounted to €-1.9m. This was mainly attributable to the dividend payment of €1.6m. As a result, net cash flow was €-0.8m (see figure 3).

Figure 3: Cash flow figures

All figures in €m	2015	2014	delta
Operating cash flow	2.1	8.3	-75.0%
CAPEX	-3.3	-3.8	-13.4%
Free cash flow	-1.3	4.4	./.
Investment cash flow	-1.0	-3.5	-70.9%
Financial cash flow	-1.9	-3.1	-39.8%
Net cash flow	-0.8	1.6	./.

Source: First Berlin Equity Research, 2G Energy AG



Sales split shows strength of service business Whereas CHP Plants revenues slid 32% to €92.3m, Service revenues increased 40% to 52.1m (see figure 4). The Service sales share jumped to 34% (2014: 20%). Service revenues are largely revolving and automatically increase as CHP plants are usually sold together with a service contract. They are thus an important growth driver and revenue stabiliser.

Figure 4: Segment sales & sales shares

All figures in €m	2015	2014	delta
CHP Plants	92.3	135.0	-31.6%
Revenue share (%)	60%	72%	-12 PP
Service	52.1	37.2	40.1%
Revenue share (%)	34%	20%	+14 PP
After Sales	8.5	14.4	-41.0%
Revenue share (%)	6%	8%	-2 PP
Total	152.9	186.6	-18.1%

Source: First Berlin Equity Research, 2G Energy AG

Foreign sales growth continuing Foreign sales increased 5% to €41m (see figure 5). Foreign business partly compensated for weaker German activities resulting in a jump in the share of foreign sales from 21% to 27% (see figure 5). Given foreign order backlog of ca. €40m, we expect further increases in foreign sales in line with 2G's target to reach a foreign sales share of 50% by 2018.

Figure 5: Foreign sales & sales share

All figures in €m	2011	2012	2013	2014	2015
Foreign sales	17.0	48.4	28.1	39.0	41.1
Growth y/y (%)	12%	184%	-42%	39%	5%
Share of total sales (%)	10.2%	33.0%	22.3%	20.9%	26.9%

Source: First Berlin Equity Research, 2G Energy AG

Q1 total output above forecast 2G had a good start into Q1 with sales of €25.2m (Q1/15: €28.9m, FBe: €29.3m) and total output of €35.6m (Q1/15: €27.4m, FBe: €28.7m). Q1 EBIT was positive at €0.1m (Q1/15: €-0.4m, FBe: €-0.1m).

Very high order backlog At the end of April, the order backlog amounted to €88m (30/04/2015: €54m, +63%). Foreign orders contribute 45% to the order book, especially the UK (€17.7m) and the US (€11.3m). Given the high order backlog and increasing service revenues, we see 2G in a strong position to reach guidance and our forecast.

Dividend continuity Management proposed a dividend of €0.37 per share for 2015, which is on the same level as former years. The dividend yield is 2%.

2016 growth drivers are internationalisation, digitalisation, and strategic co-operations Subsidiaries in the UK, the US, Italy, Spain/France, and Poland are the solid basis for further penetrating these markets. Favourable national regulations (e.g. the UK and France for biogas) or a high spark spread (spread between input price (natural gas) and output price (power)), such as in Italy and the US, support the CHP business.

Digitalisation of CHP plants increases plant utilisation & flexibility, and broadens the spectrum of CHP operations. We see 2G's advanced controlling software as an important competitive advantage in an energy world which is rapidly changing towards flexible low carbon sources and smart grids.



2G has strategic alliances with a Veolia subsidiary in the UK, and Fuji Electrics in Asia. Further strategic alliances in Europe and the US are planned to improve client access. Further markets (Australia, Africa, Russia) are penetrated by distribution co-operations. 2G also aims to form strategic alliances with larger players in the sector to act as OEM supplier of CHP plants. The company already has experience as an OEM producer of small CHP plants (20-50 kW) for Vaillant and Remeha.

Buy reiterated at unchanged price target Based on unchanged forecasts an updated DCF model still yields a price target of €25.00. We reiterate our Buy rating.



VALUATION MODEL

Figures in €m	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Net sales	174.10	187.00	200.09	212.10	224.82	236.06	247.87	257.78
Growth yoy	14%	7%	7%	6%	6%	5%	5%	4%
EBIT	8.32	13.81	15.01	15.91	16.86	17.70	18.59	20.62
EBIT margin	4.8%	7.4%	7.5%	7.5%	7.5%	7.5%	7.5%	8.0%
NOPLAT	5.74	9.53	10.36	10.98	11.63	12.22	12.83	14.23
+ depreciation & amortis. (excl. GW)	2.79	2.94	3.10	3.18	3.37	3.54	3.72	3.87
= net operating cash flow	8.53	12.47	13.46	14.16	15.01	15.76	16.55	18.10
- total investments (Capex and WC)	-7.91	-7.60	-7.00	-6.87	-6.43	-6.24	-6.55	-6.25
capital expenditure	-4.00	-4.00	-4.00	-3.18	-3.37	-3.54	-3.72	-3.87
working capital	-3.91	-3.60	-3.00	-3.69	-3.05	-2.70	-2.83	-2.38
+/- others (incl. adj. on net int., provisions, etc)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
= Free cash flow (FCF)	0.62	4.87	6.46	7.29	8.58	9.52	9.99	11.85
PV of FCF's	0.59	4.17	5.01	5.12	5.47	5.50	5.23	5.62

€m	
PVs of FCFs explicit period (2016E-29E)	63.87
PVs of FCFs in terminal period	42.53
Enterprise Value (EV)	106.40
Net cash / (Net debt)	4.24
Shareholder value	110.63
No. of shares outstanding	4.43

Fair value per share (€)	25.00
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WACC	10.3%
Cost of equity	10.7%
Pre-tax cost of debt	4.0%
Normal tax rate	31.0%
After-tax cost of debt	2.8%
Share of equity	95.0%
Share of debt	5.0%
Terminal growth	2.0%
Terminal EBIT margin	7.0%

Sensitivity analysis		Terminal EBIT margin							Fair value per share (€)
		5.5%	6.0%	6.5%	7.0%	7.5%	8.0%	8.5%	
WACC	13.3%	13.07	14.60	16.14	17.68	19.21	20.75	22.28	
	12.3%	14.52	16.20	17.89	19.58	21.27	22.95	24.64	
	11.3%	16.28	18.15	20.03	21.90	23.77	25.64	27.52	
	10.3%	18.48	20.58	22.68	24.97	26.89	28.99	31.09	
	9.3%	21.29	23.68	26.08	28.47	30.87	33.26	35.66	
	8.3%	25.00	27.78	30.56	33.34	36.12	38.90	41.68	
	7.3%	30.11	33.42	36.73	40.05	43.36	46.67	49.98	

* for layout purposes the model shows numbers only to 2023, but runs until 2029



INCOME STATEMENT

All figures in €m	2013	2014	2015	2016E	2017E	2018E
Revenues	126.1	186.6	152.9	174.1	187.0	200.1
Total output	137.5	189.6	154.7	174.6	187.6	200.7
Material costs	-96.9	-134.0	-100.6	-116.8	-123.6	-132.3
Gross profit	40.6	55.6	54.1	57.8	64.0	68.4
Personnel expenses	-21.5	-25.5	-29.3	-28.6	-28.9	-30.9
Other operating income	1.7	3.2	3.3	2.6	3.0	3.2
Other operating expenses	-15.5	-19.1	-19.9	-20.7	-21.3	-22.6
EBITDA	5.5	14.0	8.1	11.1	16.8	18.1
Depreciation and amortisation	-2.4	-2.7	-3.3	-2.8	-2.9	-3.1
Operating income (EBIT)	3.1	11.3	4.8	8.3	13.8	15.0
Net financial result	-0.3	-0.3	-0.3	-0.2	-0.2	-0.3
Income before taxes & minority interests	2.8	10.9	4.5	8.1	13.6	14.7
Income taxes	-1.8	-4.1	-1.9	-2.5	-4.2	-4.6
Minority interests	0.1	0.4	-0.2	0.0	0.0	0.0
Net income / loss	0.9	6.5	2.8	5.6	9.4	10.1
EPS in €	0.20	1.47	0.63	1.26	2.12	2.29
Diluted EPS in €	0.20	1.47	0.63	1.26	2.12	2.29
Ratios						
Gross margin	32.2%	29.8%	35.4%	33.2%	34.2%	34.2%
EBIT margin	2.5%	6.0%	3.1%	4.8%	7.4%	7.5%
EBITDA margin	4.4%	7.5%	5.3%	6.4%	9.0%	9.1%
Net income margin	0.7%	3.5%	1.8%	3.2%	5.0%	5.1%
Tax rate	63.3%	37.1%	42.0%	31.0%	31.0%	31.0%
Expenses as % of revenues						
Personnel expenses	17.0%	13.6%	19.2%	16.4%	15.5%	15.4%
Other operating expenses	12.3%	10.2%	13.0%	11.9%	11.4%	11.3%
Depreciation and amortisation	1.9%	1.5%	2.2%	1.6%	1.6%	1.5%
Y/Y growth						
Revenues	-13.9%	47.9%	-18.1%	13.9%	7.4%	7.0%
Operating income	-81.2%	262.2%	-57.7%	74.4%	66.0%	8.7%
Net income / loss	-92.2%	626.2%	-57.2%	101.0%	68.0%	8.1%



BALANCE SHEET

All figures in €m	2013	2014	2015	2016E	2017E	2018E
Assets						
Current assets, total	66.7	69.9	72.4	78.8	86.6	96.0
Cash and cash equivalents	10.5	11.9	10.2	10.0	13.1	17.7
Trade accounts and notes receivables	23.1	22.0	24.6	28.6	30.7	32.9
Inventories	28.1	31.2	32.2	34.8	37.4	40.0
Other current assets	5.1	4.9	5.3	5.4	5.4	5.4
Non-current assets, total	21.9	22.7	23.5	24.6	25.7	26.6
Property, plant and equipment	15.8	16.9	17.7	19.1	20.3	21.4
Goodwill + intangible assets	5.6	5.4	5.8	5.6	5.4	5.2
Financial assets	0.5	0.4	0.0	0.0	0.0	0.0
Total assets	88.6	92.6	95.9	103.4	112.3	122.6
Shareholders' equity & debt						
Liabilities, total	41.5	40.5	43.2	46.9	48.0	49.8
Interest bearing debt	7.2	6.1	5.9	7.0	7.0	7.0
Trade accounts payable	7.5	5.6	5.4	8.0	9.1	10.9
Provisions	10.0	11.2	11.7	11.7	11.7	11.7
Other current liabilities	16.7	17.5	20.2	20.2	20.2	20.2
Shareholders equity, total	47.2	52.1	52.6	56.5	64.3	72.8
Share capital	4.4	4.4	4.4	4.4	4.4	4.4
Capital reserve	11.2	11.2	11.2	11.2	11.2	11.2
Losses carried forward / retained earnings	31.1	35.9	37.1	41.0	48.8	57.3
Other reserves	0.0	-0.3	-0.6	-0.7	-0.6	-0.6
Minority interests	0.3	0.4	0.8	0.5	0.5	0.5
Total consolidated equity and debt	88.6	92.6	95.9	103.4	112.3	122.6
Ratios						
Current ratio (x)	2.5	2.7	2.6	2.6	2.8	2.9
Equity ratio (as %)	53.2%	56.2%	54.9%	54.6%	57.3%	59.4%
Net gearing (as %)	-6.9%	-11.0%	-8.0%	-5.4%	-9.6%	-14.8%
Equity per share (in €)	10.6	11.8	11.9	12.8	14.5	16.4
Net debt	-3.2	-5.7	-4.2	-3.1	-6.1	-10.7
Interest coverage ratio	9	34	17	36	63	47
Av. Working Capital/Sales	27.4%	18.2%	23.6%	22.2%	22.7%	22.8%
Return on Equity (ROE)	1.9%	12.5%	5.3%	9.9%	14.6%	13.9%
Return on capital employed (ROCE)	4.4%	17.2%	7.0%	11.4%	17.5%	17.2%
Days of inventory turnover	81	61	77	73	73	73
Days sales outstanding (DSO)	67	43	59	60	60	60
Days payables outstanding (DPO)	28	15	20	25	27	30



CASH FLOW STATEMENT

All figures in €m	2013	2014	2015	2016E	2017E	2018E
Net income	1.0	6.9	2.6	5.6	9.4	10.1
+ Depreciation and amortisation	2.4	2.7	3.3	2.8	2.9	3.1
- Investment in working capital	0.7	-2.8	-2.0	-3.9	-3.6	-3.0
+/- Others (prov., non cash expenses, interest, etc.)	0.0	1.5	-1.8	0.0	0.0	0.0
Operating cash flow	4.1	8.3	2.1	4.5	8.7	10.2
- CAPEX	-3.4	-3.8	-3.3	-4.0	-4.0	-4.0
Free cash flow	0.7	4.4	-1.3	0.5	4.7	6.2
Other cash flow from investing	0.4	0.3	2.3	0.0	0.0	0.0
Investment cash flow	-3.1	-3.5	-1.0	-4.0	-4.0	-4.0
Financial cash flow	-4.7	-3.1	-1.9	-0.6	-1.6	-1.6
Change in cash	-3.6	1.6	-0.8	-0.1	3.1	4.6
Exchange rate-related changes	0.0	-0.4	-0.4	0.0	0.0	0.0
Cash, start of the year	13.7	10.1	11.4	10.1	10.0	13.1
Cash, end of the year	10.1	11.4	10.1	10.0	13.1	17.7
Free cash flow per share in €	0.16	1.00	-0.28	0.11	1.07	1.41
Y/Y growth						
Operating cash flow	-	99.9%	-75.0%	116.6%	95.3%	17.4%
Free cash flow	-	n.a.	n.a.	n.a.	914.5%	32.1%
Financial cash flow	-	-32.8%	-39.8%	-68.6%	176.8%	0.0%
Free cash flow per share	-	n.a.	n.a.	n.a.	914.5%	32.1%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	26 November 2010	€13.30	Buy	€18.00
2...37	↓	↓	↓	↓
38	12 February 2016	€18.10	Buy	€25.00
39	14 March 2016	€19.00	Buy	€25.00
40	29 April 2016	€18.44	Buy	€25.00
41	Today	€18.00	Buy	€25.00

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BUY: An expected favourable price trend of more than 25% percent.

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- key sources of information in the preparation of this research report
- valuation methods and principles
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