

# 2G Energy AG

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

9M figures

**RATING**  
**BUY**

**PRICE TARGET**  
**€26.10**

Return Potential 47.1%  
 Risk Rating Medium

## 2G ON TRACK TO REACH 2016 GUIDANCE

On 30 November, 2G Energy presented 9M KPIs. Total output increased 28% to €119.9m, and EBIT was slightly positive (€+0.2m). The order backlog rose further to €111.2m. Both the high total output and the high order backlog are an excellent basis for the company to reach our full-year forecasts and the upper end of the guidance range (revenues of €150-170m at a 3-5% EBIT margin). We reiterate our Buy rating at a slightly increased price target of €26.10 (previously: €25.50).

**9M figures in line with estimates** Sales increased 10% y/y to €92.6m. Total output of €119.9m was 4% ahead of our forecast and significantly higher than the previous year's figure of €93.5m (+28% y/y). EBIT has already reached positive territory and amounted to €0.2m (FBe: €0.0m).

**Order backlog increased again** During Q3, the order backlog, which had already reached a very high level at the end of Q2 (€106.4m), increased further to €111.2m. Compared to the prior year's level of €86.1m, this is a 29% jump y/y. The backlog rose both in Germany (+1/3) and internationally (non-EU: +100%). Approximately half of the 9M backlog should be converted into sales in Q4.

**9M figures excellent basis to reach 2016 guidance** 2G reiterated that it will reach the upper end of its guidance range (revenues of €150-170m at a 3-5% EBIT margin). Both the high 9M total output and the high order backlog are an excellent basis for reaching our full-year estimates and company guidance. Q4 is by far the seasonally strongest quarter of the year.

**Further profitable growth in 2017E** 2G expects moderate sales and earnings growth in 2017. The year-end order backlog looks set to amount to ca. €80m (€60m of the 9M order backlog plus order entry of ca. €20m (FBe) in Q4). This roughly corresponds to the previous year's level of €85.5m and will represent a very solid basis for further growth. 2G is scheduled to publish concrete 2017 guidance on 27 April 2017.  
 (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	7.98	1.92	4.74
Net gearing	-6.9%	-11.0%	-8.0%	-18.7%	-16.9%	-19.2%
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.

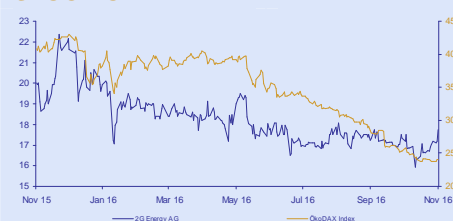
### MARKET DATA

As of 30 Nov 2016

Closing Price	€ 17.75
Shares outstanding	4.43m
Market Capitalisation	€ 78.61m
52-week Range	€ 15.94 / 22.35
Avg. Volume (12 Months)	3,641

Multiples	2015	2016E	2017E
P/E	28.0	14.0	8.3
EV/Sales	0.5	0.4	0.4
EV/EBIT	15.6	8.2	4.9
Div. Yield	2.1%	2.1%	2.1%

### STOCK OVERVIEW



### COMPANY DATA

As of 30 Jun 2016

Liquid Assets	€ 14.84m
Current Assets	€ 84.49m
Intangible Assets	€ 5.51m
Total Assets	€ 107.40m
Current Liabilities	€ 43.05m
Shareholders' Equity	€ 49.79m

### SHAREHOLDERS

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



### **New demand trend for biogas-based combined heat and power (CHP) plants in Germany to continue in coming years**

From 2009 to 2011, ca. 3,300 biogas plants were connected to the grid in Germany. These plants have a total capacity of ca. 1,700 MW el. As the first generation of biogas CHPs is now nearing the end of its life, many biogas plant operators look set to invest in larger CHP capacity and more flexible CHP operation to increase their revenues. The German Renewable Energy Act (EEG) pays a flexibility premium, and selling power according to fluctuating demand offers better pricing. Furthermore, optimised biogas plants have better opportunities to secure the ten-year follow-up support which will be tendered after the end of the 20 year feed-in tariff period. We expect 2G to benefit from higher biogas CHP demand. The company has traditionally had a strong foothold in the biogas sector and its CHP technology has already accommodated digitalisation and flexibility. Furthermore, 2G, as one of the top German players, offers comprehensive nationwide service & maintenance.

### **Large French order another sign of international competitiveness**

Following the prestigious British Sugar CHP project earlier this year (5 MW el. & 5 MW thermal), in November 2G booked a large order from Gazonor SAS, a subsidiary of the French gas producer "La Francaise de L'Energie" (LFDE). 2G will supply six containerised gensets with a total capacity of 9 MW el. and appropriate methane gas compressors for four different sites. Gazonor will invest almost €9m, and commissioning is planned for 2017. 2G's French subsidiary 2G Energie SAS, which was founded this year, will provide the full service over the entire life cycle of the gensets and gas compressors.

### **Buy rating reiterated at slightly increased price target**

Based on unchanged estimates, an updated DCF model yields a new price target of €26.10 (previously: €25.50). We reiterate our Buy rating.

**Figure 1: Reported figures vs. estimates**

All figures in €m	Q3/16A	Q3/16E	delta	Q3/15	delta	9M 2016	9M 2015	delta
Sales	28.84	36.20	-20.3%	25.30	14.0%	92.60	84.30	9.8%
Total output	34.42	30.02	14.7%	30.96	11.2%	119.90	93.49	28.3%
EBIT	2.62	2.40	9.2%	2.78	-5.8%	0.22	-1.12	n.a.
EBIT margin	9.1%	6.6%	-	11.0%	-	0.2%	-1.3%	-

Source: First Berlin Equity Research, 2G Energy AG



## 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	19.33
EBIT margin	4.8%	7.4%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
NOPLAT	5.74	9.53	10.36	10.98	11.63	12.22	12.83	13.34
+ 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	17.21
- total investments (Capex and WC)	-0.40	-10.40	-8.50	-11.08	-6.43	-6.24	-6.55	-6.25
capital expenditure	-3.50	-4.00	-5.50	-3.18	-3.37	-3.54	-3.72	-3.87
working capital	3.11	-6.40	-3.00	-7.90	-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)	8.14	2.07	4.96	3.07	8.58	9.52	9.99	10.96
PV of FCF's	8.14	1.88	4.07	2.29	5.79	5.82	5.54	5.51

€m	
PVs of FCFs explicit period (2016E-29E)	66.28
PVs of FCFs in terminal period	45.04
Enterprise Value (EV)	111.32
Net cash / (Net debt)	4.24
Shareholder value	115.55
No. of shares outstanding	4.43

Fair value per share (€)	26.10
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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%	13.86	15.51	17.16	18.81	20.47	22.12	23.77	
	12.3%	15.28	17.09	18.89	20.70	22.51	24.31	26.12	
	11.3%	17.03	19.02	21.01	23.01	25.00	26.99	28.99	
	10.3%	19.21	21.43	23.66	26.08	28.11	30.34	32.56	
	9.3%	22.00	24.52	27.05	29.57	32.09	34.61	37.14	
	8.3%	25.70	28.61	31.53	34.44	37.35	40.27	43.18	
	7.3%	30.82	34.27	37.72	41.17	44.62	48.07	51.53	

\* 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
<b>Revenues</b>	<b>126.1</b>	<b>186.6</b>	<b>152.9</b>	<b>174.1</b>	<b>187.0</b>	<b>200.1</b>
<b>Total output</b>	<b>137.5</b>	<b>189.6</b>	<b>154.7</b>	<b>185.0</b>	<b>187.6</b>	<b>200.7</b>
Material costs	-96.9	-134.0	-100.6	-127.3	-123.6	-132.3
<b>Gross profit</b>	<b>40.6</b>	<b>55.6</b>	<b>54.1</b>	<b>57.8</b>	<b>64.0</b>	<b>68.4</b>
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
<b>EBITDA</b>	<b>5.5</b>	<b>14.0</b>	<b>8.1</b>	<b>11.1</b>	<b>16.8</b>	<b>18.1</b>
Depreciation and amortisation	-2.4	-2.7	-3.3	-2.8	-2.9	-3.1
<b>Operating income (EBIT)</b>	<b>3.1</b>	<b>11.3</b>	<b>4.8</b>	<b>8.3</b>	<b>13.8</b>	<b>15.0</b>
Net financial result	-0.3	-0.3	-0.3	-0.2	-0.2	-0.3
<b>Income before taxes &amp; minority interests</b>	<b>2.8</b>	<b>10.9</b>	<b>4.5</b>	<b>8.1</b>	<b>13.6</b>	<b>14.7</b>
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
<b>Net income / loss</b>	<b>0.9</b>	<b>6.5</b>	<b>2.8</b>	<b>5.6</b>	<b>9.4</b>	<b>10.1</b>
<b>EPS in €</b>	<b>0.20</b>	<b>1.47</b>	<b>0.63</b>	<b>1.26</b>	<b>2.12</b>	<b>2.29</b>
<b>Diluted EPS in €</b>	<b>0.20</b>	<b>1.47</b>	<b>0.63</b>	<b>1.26</b>	<b>2.12</b>	<b>2.29</b>
<b>Ratios</b>						
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%
<b>Expenses as % of revenues</b>						
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%
<b>Y/Y growth</b>						
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
<b>Assets</b>						
<b>Current assets, total</b>	<b>66.7</b>	<b>69.9</b>	<b>72.4</b>	<b>84.9</b>	<b>91.3</b>	<b>99.2</b>
Cash and cash equivalents	10.5	11.9	10.2	17.5	17.8	20.9
Trade accounts and notes receivables	23.1	22.0	24.6	27.2	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
<b>Non-current assets, total</b>	<b>21.9</b>	<b>22.7</b>	<b>23.5</b>	<b>24.1</b>	<b>25.2</b>	<b>27.6</b>
Property, plant and equipment	15.8	16.9	17.7	18.6	19.8	22.4
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
<b>Total assets</b>	<b>88.6</b>	<b>92.6</b>	<b>95.9</b>	<b>109.0</b>	<b>116.5</b>	<b>126.8</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Liabilities, total</b>	<b>41.5</b>	<b>40.5</b>	<b>43.2</b>	<b>52.5</b>	<b>52.2</b>	<b>54.0</b>
Interest bearing debt	7.2	6.1	5.9	7.0	7.0	7.0
Trade accounts payable	7.5	5.6	5.4	9.4	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	24.4	24.4	24.4
<b>Shareholders equity, total</b>	<b>47.2</b>	<b>52.1</b>	<b>52.6</b>	<b>56.5</b>	<b>64.3</b>	<b>72.8</b>
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
<b>Total consolidated equity and debt</b>	<b>88.6</b>	<b>92.6</b>	<b>95.9</b>	<b>109.0</b>	<b>116.5</b>	<b>126.8</b>
<b>Ratios</b>						
Current ratio (x)	2.5	2.7	2.6	2.4	2.6	2.7
Equity ratio (as %)	53.2%	56.2%	54.9%	51.8%	55.2%	57.4%
Net gearing (as %)	-6.9%	-11.0%	-8.0%	-18.7%	-16.9%	-19.2%
Equity per share (in €)	10.6	11.8	11.9	12.8	14.5	16.4
Net debt	-3.2	-5.7	-4.2	-10.6	-10.9	-14.0
Interest coverage ratio (x)	10	33	17	36	63	47
Av. working capital/sales	27.4%	18.2%	23.6%	20.2%	19.7%	20.7%
Return on equity (ROE)	1.9%	12.5%	5.3%	9.9%	14.6%	13.9%
Return on capital employed (ROCE)	4.7%	16.9%	6.8%	11.4%	17.5%	17.2%
Days of inventory turnover	81	61	77	73	73	73
Days sales outstanding (DSO)	67	43	59	57	60	60
Days payables outstanding (DPO)	28	15	20	27	27	30



## CASH FLOW STATEMENT

All figures in €m	2013	2014	2015	2016E	2017E	2018E
<b>Net income</b>	<b>1.0</b>	<b>6.9</b>	<b>2.6</b>	<b>5.6</b>	<b>9.4</b>	<b>10.1</b>
+ 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	3.1	-6.4	-3.0
+/- Others (prov., non cash expenses, interest, etc.)	0.0	1.5	-1.8	0.0	0.0	0.0
<b>Operating cash flow</b>	<b>4.1</b>	<b>8.3</b>	<b>2.1</b>	<b>11.5</b>	<b>5.9</b>	<b>10.2</b>
- CAPEX	-3.4	-3.8	-3.3	-3.5	-4.0	-5.5
<b>Free cash flow</b>	<b>0.7</b>	<b>4.4</b>	<b>-1.3</b>	<b>8.0</b>	<b>1.9</b>	<b>4.7</b>
Other cash flow from investing	0.4	0.3	2.3	0.0	0.0	0.0
<b>Investment cash flow</b>	<b>-3.1</b>	<b>-3.5</b>	<b>-1.0</b>	<b>-3.5</b>	<b>-4.0</b>	<b>-5.5</b>
<b>Financial cash flow</b>	<b>-4.7</b>	<b>-3.1</b>	<b>-1.9</b>	<b>-0.6</b>	<b>-1.6</b>	<b>-1.6</b>
<b>Change in cash</b>	<b>-3.6</b>	<b>1.6</b>	<b>-0.8</b>	<b>7.4</b>	<b>0.3</b>	<b>3.1</b>
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	17.5	17.8
<b>Cash, end of the year</b>	<b>10.1</b>	<b>11.4</b>	<b>10.1</b>	<b>17.5</b>	<b>17.8</b>	<b>20.9</b>
<b>Free cash flow per share in €</b>	<b>0.16</b>	<b>1.00</b>	<b>-0.28</b>	<b>1.80</b>	<b>0.43</b>	<b>1.07</b>
<b>Y/Y growth</b>						
Operating cash flow	-	99.9%	-75.0%	456.9%	-48.4%	72.8%
Free cash flow	-	n.a.	n.a.	n.a.	-75.9%	146.3%
Financial cash flow	-	-32.8%	-39.8%	-68.6%	176.8%	0.0%
Free cash flow per share	-	n.a.	n.a.	n.a.	-75.9%	146.3%

**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...39	↓	↓	↓	↓
40	30 May 2016	€18.00	Buy	€25.00
41	5 July 2016	€18.06	Buy	€25.00
42	29 September 2016	€17.50	Buy	€25.50
43	Today	€17.75	Buy	€26.10

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**PRICE TARGET DATES**

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

**AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY**

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First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

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The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

**STRONG BUY:** An expected favourable price trend of more than 50% combined with sizeable confidence in the quality and forecast security of management.

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

**ADD:** An expected favourable price trend of between 0% and 25%.

**REDUCE:** An expected negative price trend of between 0% and -15%.

**SELL:** An expected negative price trend of more than -15%.

#### RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

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

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**SUPERVISORY AUTHORITY:** Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt

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