

2G Energy AG

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

Preliminary
 2020 sales

RATING
PRICE TARGET **ADD**
 Return Potential 20.1%
 Risk Rating Medium

€ 104.00

GROWTH DESPITE PANDEMIC

According to preliminary figures, 2G Energy achieved sales of €247m in 2020. The company thus grew by over 4% and slightly exceeded our forecast of €243m. Sales were in the upper range of the guidance (€235m to €250m). 2G now expects an EBIT margin in the range of 6.25% to 7.0% (previously: 5.5% to 7.0%). We have increased our EBIT margin estimate for 2020 from 6.4% to 6.6%. Overall, 2G has competently risen to the challenges posed by the pandemic, which had affected both construction site management and the production and work processes. As a result, the pandemic-related restrictions left few traces on sales and margins overall. 2G confirmed the sales guidance of €240-260m for 2021. Incoming orders in January were at €15m and thus above the €12.3m average of last years fourth quarter. In view of the good start to 2021 and expected high demand for CHP systems both in Germany and internationally, we confirm our forecast for 2021. An updated DCF model yields a slightly higher price target of €104 (previously €103). We confirm our Add recommendation.

Revenue and total output increased Although the service business remained somewhat below our expectations at €93m (FBe: €94.8m, previous year €89.4m, +4% y/y), new systems sales exceeded our forecast of €148.2m with revenue of approx. €154m (previous year: €147.0m, +5% y/y). International business grew by around 13% to around €94m (previous year: €82.9m), while business in Germany stagnated at around €153m. In our opinion, an increase in group sales of over 4% and a 10% increase in total output should be followed by an increase in EBIT. 2G has now narrowed the range of the EBIT margin guidance and expects a margin of 6.25% to 7.0% (previously: 5.5% to 7.0%). In 2019, the EBIT margin was 6.5% and EBIT was €15.5m. We are now assuming an EBIT margin of 6.6% for 2020, which corresponds to an EBIT of €16.4m. We attribute the fact that an increase in sales of ca. €10m led only to under €1m in additional EBIT to significantly higher personnel costs, which were only partially offset by relatively low other operating costs (e.g. travel expenses).

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019	2020E	2021E	2022E
Revenue (€m)	189.40	209.78	236.40	247.00	260.00	291.60
Y-o-y growth	8.7%	10.8%	12.7%	4.5%	5.3%	12.2%
EBIT (€m)	7.33	11.45	15.46	16.36	17.79	23.33
EBIT margin	3.9%	5.5%	6.5%	6.6%	6.8%	8.0%
Net income (€m)	5.01	7.52	10.31	10.85	11.77	15.59
EPS (diluted) (€)	1.13	1.70	2.33	2.45	2.63	3.48
DPS (€)	0.42	0.45	0.45	0.45	0.50	0.56
FCF (€m)	7.15	-2.37	-2.60	4.97	10.33	6.10
Net gearing	-17.5%	-10.3%	-0.2%	-4.0%	-18.1%	-19.5%
Liquid assets (€m)	16.12	13.63	10.70	13.68	27.27	31.13

RISKS

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

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 4.5 MW and addresses the natural gas, weak gases, and hydrogen markets. 2G is headquartered in Heek, Germany, and has distribution and service sites in various countries.

MARKET DATA

As of 26 Feb 2021

Closing Price	€ 86.60
Shares outstanding	4.49m
Market Capitalisation	€ 388.40m
52-week Range	€ 29.40 / 104.20
Avg. Volume (12 Months)	12,707

Multiples	2019	2020E	2021E
P/E	37.2	35.3	32.6
EV/Sales	1.6	1.5	1.5
EV/EBIT	24.5	23.1	21.3
Div. Yield	0.5%	0.5%	0.6%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2020

Liquid Assets	€ 6.15m
Current Assets	€ 126.96m
Intangible Assets	€ 3.06m
Total Assets	€ 154.44m
Current Liabilities	€ 68.33m
Shareholders' Equity	€ 67.90m

SHAREHOLDERS

Christian Grotholt	29.6%
Ludger Gausling	15.5%
Free Float	54.9%



Solid order intake of €15m in January thanks to international business While order intake of €15.0m in January was below the previous year's figure of €19.9m, the latter had been exceptionally high on account of a single order worth €4.8m. However, comparing the January order intake with the mean value of €12.3m from the last quarter of 2020, shows that it is rock solid. The foreign share was 68%, or €10.2m; €5.3m of which came from the USA. This proves the success of 2G's internationalisation strategy.

Another hydrogen CHP order 2G has received an order to supply a hydrogen CHP, which will be installed at Kirkwall Airport on the Orkney Islands in Scotland. The company positioned itself early on in the hydrogen market and is now also perceived abroad as a hydrogen pioneer in the CHP sector.

Confirmation of our 2021 forecast An order backlog of €111.2m at the end of 2020 provides 2G with a very solid basis for achieving sales guidance and our estimate of €260m. The order backlog is 5% below the previous year's figure of €116.8m, but in view of a recovering economy, we consider our segment sales estimate for the New Plant segment of €159m in the current year to be achievable.

Sales drivers in Germany are the phase-out of nuclear and coal, which will lead to significantly lower base load capacities as early as 2022 (nuclear: -8 GW, coal: -14 GW). Flexible CHP systems are ideal here as a supplement to the expansion of wind and solar power. Abroad, high spark spreads, i.e. the favourable ratio of gas price (input) to electricity price (output), make CHP attractive.

The company's medium-term guidance remains in place. By 2024, 2G plans to achieve revenues of €300m and increase the EBIT margin to 10%.

Figure 1: Revisions to forecasts

All figures in €m	2020E			2021E			2022E		
	new	old	delta	new	old	delta	new	old	delta
Sales	247.00	243.00	1.6%	260.00	260.00	0.0%	291.60	291.60	0.0%
EBIT	16.36	15.60	4.9%	17.79	17.79	0.0%	23.33	23.33	0.0%
EBIT margin	6.6%	6.4%	-	6.8%	6.8%	-	8.0%	8.0%	-
Net income	10.85	10.33	5.1%	11.77	11.77	0.0%	15.59	15.59	0.0%
Net margin	4.4%	4.3%	-	4.5%	4.5%	-	5.3%	5.3%	-
EPS diluted (€)	2.45	2.33	5.1%	2.63	2.63	0.0%	3.48	3.48	0.0%

Source: First Berlin Equity Research, 2G Energy AG

Add reiterated at slightly higher price target An updated DCF model yields a new price target of €104 (previously: €103). We confirm our Add recommendation. 2G will publish the full preliminary figures for 2020 on 25 March.



VALUATION MODEL

Figures in €m	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Net sales	247.00	260.00	291.60	335.34	385.64	443.49	510.01	561.01
Growth yoy	4%	5%	12%	15%	15%	15%	15%	10%
EBIT	16.36	17.79	23.33	30.18	38.56	44.35	51.00	56.10
EBIT margin	6.6%	6.8%	8.0%	9.0%	10.0%	10.0%	10.0%	10.0%
NOPLAT	11.29	12.28	16.10	20.82	26.61	30.60	35.19	38.71
+ depreciation & amortis. (excl. GW)	4.09	3.86	4.21	6.37	7.71	8.87	10.20	11.22
= net operating cash flow	15.37	16.14	20.30	27.20	34.32	39.47	45.39	49.93
- total investments (Capex and WC)	-9.97	-5.30	-13.70	-16.10	-19.94	-22.93	-26.37	-23.61
<i>capital expenditure</i>	-4.80	-4.80	-4.90	-6.71	-7.71	-8.87	-10.20	-11.22
<i>working capital</i>	-5.17	-0.50	-8.80	-9.39	-12.22	-14.06	-16.17	-12.39
+/- 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)	5.40	10.84	6.60	11.10	14.39	16.54	19.03	26.32
PV of FCF's	5.40	10.13	5.69	8.82	10.54	11.17	11.85	15.11

€m	
PVs of FCFs explicit period (2020E-33E)	180.13
PVs of FCFs in terminal period	279.61
Enterprise Value (EV)	459.74
Net cash / (Net debt)	5.45
Minorities	-0.04
Shareholder value	465.15
No. of shares outstanding (m)	4.49
Price Target (€)	104.00
Fair value	
WACC	8.5%
Cost of equity	8.8%
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	10.0%

Sensitivity analysis		Terminal EBIT margin						Fair value
		8.5%	9.0%	9.5%	10.0%	10.5%	11.0%	
WACC	11.5%	49.33	53.59	57.85	62.11	66.37	70.63	74.89
	10.5%	57.00	61.83	66.66	71.49	76.31	81.14	85.97
	9.5%	66.92	72.47	78.03	83.58	89.13	94.69	100.24
	8.5%	80.14	86.65	93.17	103.71	106.19	112.70	119.22
	7.5%	98.51	106.34	114.18	122.01	129.85	137.68	145.51
	6.5%	125.52	135.28	145.05	154.81	164.57	174.34	184.10
5.5%	168.73	181.55	194.38	207.21	220.04	232.87	245.70	

* for layout purposes the model shows numbers only to 2027, but runs until 2033



INCOME STATEMENT

All figures in €m	2017	2018	2019	2020E	2021E	2022E
Revenues	189.4	209.8	236.4	247.0	260.0	291.6
Change in inventories	-2.3	10.8	-10.3	3.0	0.0	0.0
Own work	3.4	0.5	0.0	0.0	0.0	0.0
Total output	190.5	221.1	226.1	250.0	260.0	291.6
Material costs	-126.8	-148.7	-146.8	-163.8	-169.0	-193.0
Gross profit	63.7	72.4	79.4	86.2	91.0	98.6
Personnel expenses	-32.5	-35.3	-39.0	-44.0	-46.0	-46.9
Other operating income	1.3	1.8	2.0	2.7	2.6	2.9
Other operating expenses	-21.0	-23.2	-23.1	-24.2	-25.7	-26.7
EBITDA	11.1	15.4	19.2	20.4	21.7	27.5
Depreciation and amortisation	-3.8	-3.9	-3.7	-4.1	-3.9	-4.2
Operating income (EBIT)	7.3	11.5	15.5	16.4	17.8	23.3
Net financial result	-0.4	-0.4	-0.4	-0.6	-0.7	-0.7
Income before taxes & minority interests	7.0	11.1	15.1	15.7	17.1	22.6
Other income / expenses	0.0	0.0	-1.8	0.0	0.0	0.0
Income taxes	-2.0	-3.5	-4.8	-4.9	-5.3	-7.0
Minority interests	-0.1	0.1	0.0	0.0	0.0	0.0
Net income / loss	5.0	7.5	10.3	10.9	11.8	15.6
EPS in €	1.13	1.70	2.33	2.45	2.63	3.48
Diluted EPS (in €)	1.13	1.70	2.33	2.45	2.63	3.48
Ratios						
Gross margin	33.6%	34.5%	33.6%	34.9%	35.0%	33.8%
EBIT margin	3.9%	5.5%	6.5%	6.6%	6.8%	8.0%
EBITDA margin	5.9%	7.3%	8.1%	8.3%	8.3%	9.4%
Net income margin	2.6%	3.6%	4.4%	4.4%	4.5%	5.3%
Tax rate	29.3%	31.2%	31.8%	31.0%	31.0%	31.0%
Expenses as % of revenues						
Personnel expenses	17.2%	16.8%	16.5%	17.8%	17.7%	16.1%
Other operating expenses	11.1%	11.1%	9.8%	9.8%	9.9%	9.2%
Depreciation and amortisation	2.0%	1.9%	1.6%	1.7%	1.5%	1.4%
Y/Y growth						
Revenues	8.7%	10.8%	12.7%	4.5%	5.3%	12.2%
Operating income	29.8%	56.2%	35.0%	5.8%	8.8%	31.1%
Net income / loss	178.6%	50.2%	37.1%	5.3%	8.5%	32.5%



BALANCE SHEET

All figures in €m	2017	2018	2019	2020E	2021E	2022E
Revenues	189.4	209.8	236.4	247.0	260.0	291.6
Change in inventories	-2.3	10.8	-10.3	3.0	0.0	0.0
Own work	3.4	0.5	0.0	0.0	0.0	0.0
Total output	190.5	221.1	226.1	250.0	260.0	291.6
Material costs	-126.8	-148.7	-146.8	-163.8	-169.0	-193.0
Gross profit	63.7	72.4	79.4	86.2	91.0	98.6
Personnel expenses	-32.5	-35.3	-39.0	-44.0	-46.0	-46.9
Other operating income	1.3	1.8	2.0	2.7	2.6	2.9
Other operating expenses	-21.0	-23.2	-23.1	-24.2	-25.7	-26.7
EBITDA	11.1	15.4	19.2	20.4	21.7	27.5
Depreciation and amortisation	-3.8	-3.9	-3.7	-4.1	-3.9	-4.2
Operating income (EBIT)	7.3	11.5	15.5	16.4	17.8	23.3
Net financial result	-0.4	-0.4	-0.4	-0.6	-0.7	-0.7
Income before taxes & minority interests	7.0	11.1	15.1	15.7	17.1	22.6
Other income / expenses	0.0	0.0	-1.8	0.0	0.0	0.0
Income taxes	-2.0	-3.5	-4.8	-4.9	-5.3	-7.0
Minority interests	-0.1	0.1	0.0	0.0	0.0	0.0
Net income / loss	5.0	7.5	10.3	10.9	11.8	15.6
EPS in €	1.13	1.70	2.33	2.45	2.63	3.48
Diluted EPS (in €)	1.13	1.70	2.33	2.45	2.63	3.48
Ratios						
Gross margin	33.6%	34.5%	33.6%	34.9%	35.0%	33.8%
EBIT margin	3.9%	5.5%	6.5%	6.6%	6.8%	8.0%
EBITDA margin	5.9%	7.3%	8.1%	8.3%	8.3%	9.4%
Net income margin	2.6%	3.6%	4.4%	4.4%	4.5%	5.3%
Tax rate	29.3%	31.2%	31.8%	31.0%	31.0%	31.0%
Expenses as % of revenues						
Personnel expenses	17.2%	16.8%	16.5%	17.8%	17.7%	16.1%
Other operating expenses	11.1%	11.1%	9.8%	9.8%	9.9%	9.2%
Depreciation and amortisation	2.0%	1.9%	1.6%	1.7%	1.5%	1.4%
Y/Y growth						
Revenues	8.7%	10.8%	12.7%	4.5%	5.3%	12.2%
Operating income	29.8%	56.2%	35.0%	5.8%	8.8%	31.1%
Net income / loss	178.6%	50.2%	37.1%	5.3%	8.5%	32.5%



CASH FLOW STATEMENT

All figures in €m	2017	2018	2019	2020E	2021E	2022E
Net income	4.9	7.6	10.3	10.9	11.8	15.6
+ Depreciation and amortisation	3.8	3.9	3.7	4.1	3.9	4.2
- Investment in working capital	1.2	-6.6	-11.4	-5.2	-0.5	-8.8
+/- Others (prov., non cash expenses, interest, etc.)	2.9	-0.1	-0.7	0.0	0.0	0.0
Operating cash flow	12.8	4.9	1.9	9.8	15.1	11.0
- CAPEX	-5.7	-7.2	-4.5	-4.8	-4.8	-4.9
Free cash flow	7.2	-2.4	-2.6	5.0	10.3	6.1
Acquisitions	0.0	0.0	-1.4	0.0	0.0	0.0
Financial investments	0.0	-1.0	0.1	0.0	0.0	0.0
Disposals	0.8	2.3	0.2	0.0	0.0	0.0
Investment cash flow	-4.9	-5.9	-5.7	-4.8	-4.8	-4.9
Change in financial liabilities	0.1	0.9	3.1	0.0	0.0	0.0
Dividends paid	-1.8	-1.9	-2.0	-2.0	-2.0	-2.2
Purchase of own shares	0.0	0.0	0.0	0.0	0.0	0.0
Capital measures	0.0	0.0	0.0	0.0	5.3	0.0
Others	-0.4	-0.5	-0.4	0.0	0.0	0.0
Financial cash flow	-2.1	-1.4	0.7	-2.0	3.3	-2.2
Change in cash	5.9	-2.4	-3.0	3.0	13.6	3.9
Exchange rate-related changes	0.1	0.0	0.0	0.0	0.0	0.0
Cash, start of the year	10.2	16.1	13.6	10.6	13.7	27.3
Cash, end of the year	16.1	13.6	10.6	13.7	27.3	31.1
Free cash flow per share in €	1.61	-0.53	-0.59	1.12	2.30	1.36
Y/Y growth						
Operating cash flow	-	-62.1%	-60.6%	408.4%	54.9%	-27.3%
Free cash flow	-	n.a.	9.7%	n.a.	108.0%	-40.9%
Financial cash flow	-	-34.6%	n.a.	n.a.	n.a.	n.a.
Free cash flow per share	-	n.a.	9.7%	n.a.	105.5%	-40.9%

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Anschrift:

First Berlin Equity Research GmbH
Mohrenstr. 34
10117 Berlin
Germany

Vertreten durch den Geschäftsführer: Martin Bailey

Telefon: +49 (0) 30-80 93 9 680

Fax: +49 (0) 30-80 93 9 687

E-Mail: info@firstberlin.com

Amtsgericht Berlin Charlottenburg HR B 103329 B

UST-Id.: 251601797

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First Berlin Equity Research GmbH

Authored by: Dr. Karsten von Blumenthal, Analyst

All publications of the last 12 months were authored by Dr. Karsten von Blumenthal.

Company responsible for preparation: First Berlin Equity Research GmbH, Mohrenstraße 34, 10117 Berlin

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Person responsible for forwarding or distributing this financial analysis: Martin Bailey

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PRICE TARGET DATES

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ASSET VALUATION SYSTEM

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

ASSET RECOMMENDATION

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

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

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.

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...61	↓	↓	↓	↓
62	28 February 2020	€44.10	Add	€51.00
63	6 April 2020	€39.05	Buy	€50.00
64	11 May 2020	€45.15	Add	€50.00
65	29 May 2020	€50.70	Add	€52.00
66	24 September 2020	€66.50	Reduce	€70.00
67	20 November 2020	€81.30	Add	€90.00
68	26 January 2021	€93.20	Add	€103.00
69	29 January 2021	€94.10	Add	€103.00
70	Today	€86.60	Add	€104.00

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

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Legally required information regarding

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

can be accessed through the following internet link: <https://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Marie-Curie-Straße 24-28, 60439 Frankfurt am Main

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