

2G Energy AG

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

Preliminary 2022
 figures and 2023
 guidance

RATING
PRICE TARGET

Return Potential
 Risk Rating

BUY
€ 31.00
 34.5%
 Medium

FURTHER SALES AND MARGIN GROWTH

2G Energy has confirmed 2022 revenue of €313m (+17% y/y) as already reported in February. Total output increased even further (26% y/y) to €339m, demonstrating strong production performance. The EBIT margin is 7.0%, in line with consensus estimates and slightly below our forecast of 7.3%. The company has confirmed 2023 sales guidance of €310m - €350m at an EBIT margin of 6.5% - 8.5%. The previous FB estimate is at the upper end of the guidance. Given the high material cost ratio in 2022 and the high backlog of nearly completed CHP plants at the end of 2022, which will be sold in 2023 and have a high material cost ratio compared to service, we lower our 2023 EBIT margin estimate from 8.5% to 8.0% but maintain our revenue forecast of €345m. The high order backlog (€177m), as well as the better-than-expected gas supply in winter and the end of the taxation of so-called windfall profits planned for June should provide sufficient momentum for increasing demand and CHP plant sales. An updated DCF model yields an unchanged €31 price target. We confirm our Buy recommendation.

Guidance provides a corridor for 2023 2G has confirmed its sales guidance (€310m - €350m). The EBIT margin guidance published for the first time (6.5% - 8.5%) corresponds to an EBIT range of €20.2m - €29.8m. The consensus estimate is €26.6m and FB's previous estimate is €29.4m. Overall, we see our forecast of further sales (FB 2023: +10% y/y) and margin growth (2022: 7.0%, FB 2023 new: 8.0%) confirmed.

2022 was a very successful year for 2G despite supply chain challenges, material cost increases and natural gas shortages 2G broke the €300m revenue mark for the first time. In the last 10 years, the company has more than doubled its revenue (2012 revenue: €147m). 2G also set a new EBIT record. At €22.0m, 2G surpassed the record figure achieved in 2011 for the first time.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2019	2020	2021	2022E	2023E	2024E
Revenue (€m)	236.40	246.73	266.35	312.60	345.00	385.64
Y-o-y growth	12.7%	4.4%	8.0%	17.4%	10.4%	11.8%
EBIT (€m)	15.46	16.43	17.93	22.00	27.44	38.67
EBIT margin	6.5%	6.7%	6.7%	7.0%	8.0%	10.0%
Net income (€m)	10.31	11.97	12.61	14.81	18.43	26.18
EPS (diluted) (€)	0.58	0.68	0.77	0.83	1.03	1.46
DPS (€)	0.11	0.11	0.13	0.14	0.19	0.21
FCF (€m)	-3.14	7.07	4.01	-4.79	14.75	21.52
Net gearing	-0.2%	-7.1%	-15.5%	-6.8%	-15.9%	-25.8%
Liquid assets (€m)	10.70	11.03	19.93	13.28	25.52	43.63

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 (CHP) plants. 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 31 Mar 2023

Closing Price	€ 23.05
Shares outstanding	17.94m
Market Capitalisation	€ 413.52m
52-week Range	€ 18.52 / 32.55
Avg. Volume (12 Months)	21,257

Multiples	2021	2022E	2023E
P/E	32.8	27.9	22.4
EV/Sales	1.5	1.3	1.2
EV/EBIT	22.3	18.2	14.6
Div. Yield	0.5%	0.6%	0.8%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2022

Liquid Assets	€ 12.23m
Current Assets	€ 163.82m
Intangible Assets	€ 4.91m
Total Assets	€ 196.89m
Current Liabilities	€ 79.04m
Shareholders' Equity	€ 94.28m

SHAREHOLDERS

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

Compared to the previous year, 2G increased EBIT by 23% (see figure 1). This increase was achieved despite the challenging supply chain situation and material price increases. Material costs increased from €171m in the previous year to €224m (+31% y/y), while the cost of materials ratio widened from 63.7% to 66.1%. Even though 2G largely passed on the material cost increases to customers, the delay in passing them on contributed significantly to the ratio increase. Although personnel expenses also rose by 15% y/y to €57m, the personnel expense ratio was lowered from 18.4% to 16.8%. Other operating expenses increased by 19% y/y to €35.3m.

Figure 1: Reported figures versus forecasts

All figures in €m	2022A	2022E	delta	2021A	delta
Sales	312.6	313.0	0%	266.3	17%
Total output	338.8	321.1	6%	268.9	26%
EBIT	22.0	22.9	-4%	17.9	23%
EBIT margin	7.0%	7.3%	-	6.7%	-

Source: First Berlin Equity Research, 2G Energy AG

Sales driven by service and international business Sales were driven in particular by the service segment (+28% y/y), which accounted for 47% of total sales. International business increased by 22% and, at €126.3m, accounted for a good 40% of total sales (see figure 2). Sales growth was particularly strong in the BeNeLux countries (+€11.7m). 2G consequently established a sales and service company based in Oldenzaal in the Netherlands in January 2023 to gain further market share. In Eastern Europe, a rethinking of the energy sector towards decarbonisation and increased efficiency is beginning. Here, too, 2G was able to generate additional sales through its existing partner network.

Figure 2: Sales breakdown

All figures in €m	2022	2021	Delta
Sales	312.6	266.3	17%
Sales Germany	186.3	162.6	15%
Sales international	126.3	103.8	22%
Sales New Plants	164.5	150.8	9%
Sales Service	148.1	115.6	28%

Source: First Berlin Equity Research, 2G Energy AG

Working capital increase leads to lower cash balance Due to supply chain challenges, 2G significantly increased inventories by approximately €30m, which was the main reason for the €22.2m rise in working capital to €94.5m. 2G financed the increase from profit and cash on hand, which decreased by €6.4m to €13.3m. The working capital ratio (working capital / sales) widened from 27.1% to 30.2%. We expect the increasing stabilisation of supply chains to lead to a decrease in the ratio in the current year (FBe: 27.7%).

Order backlog up 16% y/y 2G started 2023 with a CHP plant order backlog of around €177m (early 2022: €153m, +16% y/y). We expect revenue from CHP plant sales of approx. €183m in 2023, which means that the order backlog at the beginning of the year is already nearly sufficient to achieve our segment revenue target and largely fully utilized capacity.

In the winter of 22/23, there was a threat of a gas shortage. The electricity price brake the German government introduced in response resulted in the taxation of so-called windfall profits also for biogas plants. Both factors temporarily unsettled customers. The decisive measures taken by the German government as well as reduced consumption prevented a



gas shortage. The taxation of windfall profits is to expire in June according to statements made by both the German Minister of Economic Affairs, Robert Habeck and the EU Commission. Therefore, temporarily weaker demand for CHP plants in Germany (2G's German order intake fell 11% y/y in H2/22) is starting to recover and should soon lead to rising order intake.

2G success story 2G now employs more than 850 people working at its headquarters in Heek, Germany, in North America and in five other European locations. In total, the company is active in more than 50 countries. Founded in 1995, the company's shares have been traded on the stock exchange since 2007 and are included in the "Scale" segment, the registered SME growth market of the Frankfurt Stock Exchange.

Federal government has not yet recognised potential of distributed CHP Although the federal government has made extensive regulatory improvements in the field of renewable energy and hydrogen, these have so far not been focused on CHP. To replace coal-fired power plants, it plans to build 17-21 GW of gas-fired capacity by 2030. By 2025, however, the German Federal Network Agency anticipates an addition of only 3.4 GW, as stated in its "Report on the Status and Development of Security of Supply in the Area of Electricity Supply" published in January 2023. In view of the long planning times, the volatility of gas prices and the uncertainty surrounding EU electricity market regulation, we have yet to see where the addition of large-scale power plants is supposed to come from. This is precisely where a huge opportunity for distributed CHP plants lies. If the German government were to additionally rely on quickly addable distributed CHP capacity, as the expansion of large natural gas-fired power plants is proceeding too slowly, this would give 2G a special boost. According to management, the company would respond by doubling its capacity (currently: approx. 250 MW). In 2021, 2G shipped 652 CHP units with a cumulative electrical capacity of 175 MW.

Strong Q1 expected The high inventory of CHP plants about to be delivered at year-end 2022 should lead to a strong increase in sales y/y in the CHP plant segment in the first quarter. Year-end 2022 inventories increased by €26.0m, and management expects full-year volume growth of 10%.

2G also targets further growth in 2024 For 2024, 2G plans to achieve sales of up to €390m with an EBIT margin of 8.5% - 10.0%. Thus, 2G's original target of achieving sales of €400m at an EBIT margin of 8.5% - 10.0% in 2026 should be achieved effectively two years ahead of schedule.

EBIT forecast for 2023 adjusted slightly downwards due to material cost issue According to management, material price increases will continue to be an issue in 2023 and the passing on of cost increases to customers usually happens with a certain delay. In addition, inflation in Germany will remain high in 2023 despite a drop (if economic forecast of 15/3/2023: 6.2%). We have therefore lowered our EBIT margin forecast from 8.5% to 8.0% (see figure 3 overleaf). This does not change our positive view of the company. We expect further sales and margin growth in the short and medium term.



Figure 3: Revisions to forecasts

All figures in €m	2022E			2023E			2024E		
	new	old	delta	new	old	delta	new	old	delta
Sales	312.6	313.0	0%	345.0	345.0	0%	385.6	385.6	0%
EBIT	22.0	22.9	-4%	27.4	29.4	-7%	38.7	38.6	0%
EBIT margin	7.0%	7.3%	-	8.0%	8.5%	-	10.0%	10.0%	-
Net income	14.8	15.5	-4%	18.4	19.8	-7%	26.2	26.1	0%
Net margin	4.7%	5.0%	-	5.3%	5.7%	-	6.8%	6.8%	-
EPS diluted (€)	0.83	0.86	-4%	1.03	1.10	-7%	1.46	1.46	0%

Source: First Berlin Equity Research

Buy confirmed at unchanged price target An updated DCF model yields an unchanged €31 price target. We confirm our Buy recommendation.



VALUATION MODEL

Figures in €m	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Net sales	312.60	345.00	385.64	443.49	510.01	576.31	639.70	697.28
Growth y/y	17%	10%	12%	15%	15%	13%	11%	9%
EBIT	22.00	27.44	38.67	44.35	51.00	57.63	63.97	69.73
EBIT margin	7.0%	8.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
NOPLAT	15.18	18.93	26.68	31.04	35.70	40.34	44.78	48.81
+ depreciation & amortis. (excl. GW)	4.70	4.62	5.24	6.65	7.65	8.64	9.60	10.46
= net operating cash flow	19.88	23.55	31.92	37.70	43.35	48.99	54.37	59.27
- total investments (Capex and WC)	-32.00	-8.30	-9.90	-18.62	-24.28	-25.22	-25.44	-24.85
<i>capital expenditure</i>	-9.80	-7.40	-6.40	-6.65	-7.65	-8.64	-9.60	-10.46
<i>working capital</i>	-22.20	-0.90	-3.50	-11.97	-16.63	-16.58	-15.85	-14.39
+/- 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)	-12.12	15.25	22.02	19.07	19.07	23.77	28.93	34.42
PV of FCFs	-12.48	14.39	19.02	15.08	13.81	15.76	17.57	19.14

€m	
PVs of FCFs explicit period (2022E-35E)	223.29
PVs of FCFs in terminal period	325.34
Enterprise Value (EV)	548.63
Net cash / (Net debt)	13.64
Minorities	-0.02
Shareholder value	562.24
No. of shares outstanding (m)	17.94
Fair value per share (€)	31.34

Terminal growth	3.0%
Terminal EBIT margin	10.0%

WACC	9.2%
Cost of equity	9.5%
Pre-tax cost of debt	4.0%
Normal tax rate	30.0%
After-tax cost of debt	2.8%
Share of equity	95.0%
Share of debt	5.0%
Price Target (€)	31.00

Sensitivity analysis

WACC		Terminal EBIT margin						Fair value per share (€)
		8.5%	9.0%	9.5%	10.0%	10.5%	11.0%	
12.2%		15.51	16.80	18.09	19.38	20.68	21.97	23.26
11.2%		17.85	19.31	20.77	22.23	23.68	25.14	26.60
10.2%		20.89	22.56	24.23	25.90	27.57	29.24	30.91
9.2%		24.96	26.91	28.86	31.34	32.76	34.71	36.66
8.2%		30.66	33.00	35.34	37.69	40.03	42.37	44.71
7.2%		39.16	42.08	45.01	47.93	50.85	53.77	56.70
6.2%		53.11	56.98	60.85	64.71	68.58	72.45	76.32

* for layout purposes the model shows numbers only to 2029, but runs until 2035



INCOME STATEMENT

All figures in €m	2019	2020	2021	2022E	2023E	2024E
Revenues	236.4	246.7	266.3	312.6	345.0	385.6
Change in inventories	-10.3	7.4	2.6	26.0	0.0	0.0
Own work	0.0	0.1	0.0	0.2	0.2	0.2
Total output	226.1	254.2	268.9	338.8	345.2	385.8
Material costs	-146.8	-167.3	-171.3	-224.1	-221.5	-246.8
Gross profit	79.4	87.0	97.7	114.7	123.7	139.0
Personnel expenses	-39.0	-44.3	-49.4	-57.0	-61.0	-64.5
Other operating income	2.0	2.3	3.4	4.4	5.0	5.4
Other operating expenses	-23.1	-24.6	-29.7	-35.3	-35.6	-35.9
EBITDA	19.2	20.1	21.9	26.7	32.1	43.9
Depreciation and amortisation	-3.7	-3.7	-3.9	-4.7	-4.6	-5.2
Operating income (EBIT)	15.5	16.4	17.9	22.0	27.4	38.7
Net financial result	-0.4	-0.2	-0.2	-0.5	-0.7	-0.7
Income before taxes & minority interests	15.1	16.3	17.7	21.5	26.7	37.9
Other income / expenses	0.0	0.0	-1.8	0.0	0.0	0.0
Income taxes	-4.8	-4.3	-5.1	-6.7	-8.3	-11.8
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Net income / loss	10.3	12.0	12.6	14.8	18.4	26.2
EPS in €	0.58	0.68	0.77	0.83	1.03	1.46
Diluted EPS (in €)	0.58	0.68	0.77	0.83	1.03	1.46
Ratios						
Gross margin (gross profit / total output)	35.1%	34.2%	36.3%	33.9%	35.8%	36.0%
EBITDA margin (EBITDA / revenue)	8.1%	8.1%	8.2%	8.5%	9.3%	11.4%
EBIT margin (EBIT / revenue)	6.5%	6.7%	6.7%	7.0%	8.0%	10.0%
Net income margin	4.4%	4.9%	4.7%	4.7%	5.3%	6.8%
Tax rate	31.8%	26.5%	28.7%	31.0%	31.0%	31.0%
Expenses as % of revenues						
Personnel expenses	16.5%	17.9%	18.5%	18.2%	17.7%	16.7%
Other operating expenses	9.8%	10.0%	11.2%	11.3%	10.3%	9.3%
Depreciation and amortisation	1.6%	1.5%	1.5%	1.5%	1.3%	1.4%
Y/Y growth						
Revenues	12.7%	4.4%	8.0%	17.4%	10.4%	11.8%
Operating income	35.0%	6.2%	9.1%	22.7%	24.7%	40.9%
Net income / loss	37.1%	16.1%	5.3%	17.5%	24.4%	42.0%



BALANCE SHEET

All figures in €m	2019	2020	2021	2022E	2023E	2024E
Assets						
Current assets, total	112.7	119.8	142.6	180.1	192.7	216.6
Cash and cash equivalents	10.7	11.0	19.9	13.3	25.5	43.6
Trade accounts and notes receivables	37.0	42.2	43.4	57.1	58.6	64.4
Inventories	60.4	60.8	72.2	102.6	101.5	101.5
Other current assets	4.6	5.9	7.1	7.1	7.1	7.1
Non-current assets, total	28.2	26.7	27.1	32.2	35.0	36.2
Property, plant and equipment	24.1	22.9	22.6	28.2	31.6	33.4
Goodwill + intangible assets	3.2	2.9	4.5	4.0	3.4	2.8
Financial assets	0.9	0.9	0.0	0.0	0.0	0.0
Total assets	140.9	146.6	169.7	212.3	227.7	252.8
Shareholders' equity & debt						
Liabilities, total	72.4	68.2	75.2	105.2	104.7	107.0
Interest bearing debt	10.6	5.5	5.3	6.0	6.0	6.0
Trade accounts payable	13.7	10.0	11.5	20.5	20.0	22.3
Provisions	15.4	13.4	17.7	20.2	20.2	20.2
Other current liabilities	32.7	39.4	40.7	58.5	58.5	58.5
Shareholders equity, total	68.5	78.3	94.5	107.1	123.0	145.8
Share capital*	4.4	4.4	4.5	17.9	17.9	17.9
Capital reserve	11.2	11.2	16.4	3.0	3.0	3.0
Losses carried forward / retained earnings	53.7	63.7	74.3	86.9	102.8	125.6
Other reserves	-0.9	-1.0	-0.7	-0.7	-0.7	-0.7
Minority interests	0.7	0.0	-0.1	0.0	0.0	0.0
Total consolidated equity and debt	140.9	146.6	169.7	212.3	227.7	252.8

*2022: share split

Ratios

Current ratio (x)	2.2	2.4	2.6	2.2	2.4	2.6
Equity ratio (as %)	48.6%	53.4%	55.7%	50.5%	54.0%	57.7%
Net gearing (as %)	-0.2%	-7.1%	-15.5%	-6.8%	-15.9%	-25.8%
Equity per share (in €)	15.5	17.7	21.1	6.0	6.9	8.1
Net debt	-0.2	-5.6	-14.6	-7.3	-19.5	-37.6
Interest coverage ratio (x)	44	89	87	42	38	53
Av. working capital/sales	22.0%	24.5%	25.4%	26.7%	27.5%	25.2%
Return on equity (ROE)	15.1%	15.3%	13.3%	13.8%	15.0%	18.0%
Return on capital employed (ROCE)	17.1%	17.2%	16.7%	17.5%	19.4%	24.1%
Days of inventory turnover	93	90	99	120	107	96
Days sales outstanding (DSO)	57	62	59	67	62	61
Days payables outstanding (DPO)	34	22	24	33	33	33



CASH FLOW STATEMENT

All figures in €m	2019	2020	2021	2022E	2023E	2024E
Net income	10.3	12.0	12.6	14.8	18.4	26.2
+ Depreciation and amortisation	3.2	3.7	3.9	4.7	4.6	5.2
- Investment in working capital	-11.4	-5.6	-6.4	-21.3	-0.9	-3.5
+/- Others (prov., non cash expenses, interest, etc.)	-0.7	-0.3	-1.3	6.8	0.0	0.0
Operating cash flow	1.4	9.8	8.9	5.0	22.2	27.9
- CAPEX	-4.5	-2.7	-4.9	-9.8	-7.4	-6.4
Free cash flow	-3.1	7.1	4.0	-4.8	14.8	21.5
Acquisitions	-1.4	0.0	-1.2	0.0	0.0	0.0
Financial investments	0.1	0.2	0.9	0.0	0.0	0.0
Disposals	0.2	0.4	3.3	0.0	0.0	0.0
Investment cash flow	-5.7	-2.1	-1.8	-9.8	-7.4	-6.4
Change in financial liabilities	3.1	-5.0	-1.3	0.7	0.0	0.0
Dividends paid	-2.0	-2.0	-2.0	-2.2	-2.5	-3.4
Purchase of own shares	0.0	0.0	0.0	0.0	0.0	0.0
Capital measures	0.0	0.0	5.3	0.0	0.0	0.0
Others	-0.4	-0.4	-0.3	0.0	0.0	0.0
Financial cash flow	0.7	-7.4	1.6	-1.6	-2.5	-3.4
Change in cash	-3.6	0.3	8.6	-6.3	12.2	18.1
Exchange rate-related changes	0.0	0.1	0.1	-0.3	0.0	0.0
Cash, start of the year	13.6	10.0	10.5	19.7	13.3	25.5
Cash, end of the year	10.0	10.5	19.7	13.3	25.5	43.6
Free cash flow per share in €	-0.71	1.60	0.89	-0.27	0.82	1.20
Y/Y growth						
Operating cash flow	-	611.9%	-9.6%	-43.4%	342.0%	26.0%
Free cash flow	-	n.a.	-43.3%	n.a.	n.a.	45.9%
Financial cash flow	-	n.a.	n.a.	n.a.	61.2%	35.7%
Free cash flow per share	-	n.a.	-44.0%	n.a.	n.a.	45.9%

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Ggf. Inhaltlich Verantwortlicher gem. § 6 MDStV

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The production of this recommendation was completed on 3 April 2023 at 11:11

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

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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.

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RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	26 November 2010	€3.30	Buy	€4.50
2...78	↓	↓	↓	↓
79	25 February 2022	€94.70	Buy	€30.00
80	11 April 2022	€29.90	Add	€31.00
81	25 April 2022	€28.20	Add	€31.00
82	20 May 2022	€25.55	Add	€31.00
83	6 September 2022	€23.80	Buy	€31.00
84	21 October 2022	€21.65	Buy	€31.00
85	21 November 2022	€23.55	Buy	€31.00
86	24 February 2023	€22.50	Buy	€31.00
87	Today	€23.05	Buy	€31.00

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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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