

PNE AG

Germany / Cleantech
 Primary exchange: Frankfurt
 Bloomberg: PNE3 GR
 ISIN: DE000A0JBPG2

9M figures

RATING
PRICE TARGET **ADD**
€ 4.00
 Return Potential 1.3%
 Risk Rating High

STRONG PROJECT BUSINESS RESULTS IN 9M EBIT OF €10M

In the first nine months, PNE increased sales by 82% to €98.7m and EBIT by 166% to €10m. This reflects the strong project business with 404 MW either put into operation or under construction and projects sold with a total capacity of 289 MW. The net result was however negative (€-5.5m) due to higher than expected interest and similar expenses resulting from interest rate swaps. PNE confirmed 2019 guidance (EBITDA: €25-30m, EBIT: €15-20m). We lower our 2019 forecast due mainly to the interest rate swap effect. Given the still slow approval procedures in Germany, we believe that the 2020 wind farm portfolio will reach a total capacity that is somewhat below 200 MW and lower our 2020 forecasts. We stick to our €4.00 price target, which corresponds to Morgan Stanley Infrastructure Partners' takeover offer. We reiterate our Add rating.

Weak Q3 Despite the convincing 9M figures, Q3 was weak due to low project sales. Q3 revenue was only €6.9m (FBe: €11.4m, Q3/18: €11.4m) due to a very low Project Development segment revenue contribution of just €2m (external sales). Group EBIT amounted to €-3.0m (FBe: €-2.4m, Q3/18: €-0.3m). The quarterly EBIT contribution of the Project Development segment was negative for the first time this year (€-0.9m). The Q3 net result of the group came in at €-8.9m and was significantly below our estimate of €-3.7m (Q3/18: €-1.7m) due to much higher interest and similar expenses (€5.2m). The reason is interest rate swaps, mainly to secure project financing of the 2020 wind farm portfolio. When the portfolio is sold, the negative swap effect will be balanced.

Project business activity remains at a high level At present, as at the end of H1, seven wind farms are under construction in Germany, Poland, and Sweden with a total capacity of 332 MW (prior year: 93 MW). Four of these projects have already been sold.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019E	2020E	2021E
Revenue (€m)	248.58	114.08	91.38	118.69	206.10	151.67
Y-o-y growth	127.0%	-54.1%	-19.9%	29.9%	73.6%	-26.4%
EBIT (€m)	97.04	23.13	7.79	17.01	89.84	19.13
EBIT margin	39.0%	20.3%	8.5%	14.3%	43.6%	12.6%
Net income (€m)	68.97	17.08	-1.04	3.03	67.65	13.93
EPS (diluted) (€)	0.88	0.22	-0.01	0.04	0.88	0.18
DPS (€)	0.12	0.04	0.04	0.04	0.13	0.04
FCF (€m)	-44.27	-47.39	-32.80	-63.31	158.95	23.63
Net gearing	-12.6%	-5.8%	14.6%	43.5%	-19.4%	-23.3%
Liquid assets (€m)	147.69	193.98	129.07	106.57	112.46	126.14

RISKS

Risks to our price target include, but are not limited to: changes in legislation, project financing risks, project delays, and project approval risks.

COMPANY PROFILE

PNE AG is an international wind energy project developer for on- and offshore wind farms. It has begun to develop into a clean energy solution provider active in wind, PV, storage, power-to-heat, energy supply management, and energy services. The company is based in Cuxhaven, Germany.

MARKET DATA

As of 07 Nov 2019

Closing Price	€ 3.95
Shares outstanding	76.60m
Market Capitalisation	€ 302.58m
52-week Range	€ 2.27 / 4.00
Avg. Volume (12 Months)	224,176

Multiples	2018	2019E	2020E
P/E	n.a.	99.8	4.5
EV/Sales	3.7	2.8	1.6
EV/EBIT	43.2	19.8	3.7
Div. Yield	1.0%	1.0%	3.3%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2019

Liquid Assets	€ 140.03m
Current Assets	€ 276.14m
Intangible Assets	€ 64.85m
Total Assets	€ 521.85m
Current Liabilities	€ 115.89m
Shareholders' Equity	€ 217.35m

SHAREHOLDERS

Universal Investment GmbH	12.2%
Active Ownership Fund SCS	5.1%
Axxion S.A.	3.2%
Other investors	6.0%
Free Float	75.6%

**Figure 1: Reported figures versus forecasts**

All figures in €m	Q3-19A	Q3-19E	Delta	Q3-18A	Delta	9M 2019	9M 2018	Delta
Sales	6.94	11.35	-38.8%	11.45	-39.4%	72.58	39.86	82.1%
EBIT	-2.99	-2.48	-	-0.34	-	9.89	3.72	166.0%
margin	-43.1%	-21.9%	-	-2.9%	-	13.6%	9.3%	-
Net income	-8.85	-3.65	-	-1.71	-	-5.50	-1.98	-
margin	-127.5%	-32.2%	-	-14.9%	-	-7.6%	-5.0%	-
EPS (diluted) in €	-0.12	-0.05	-	-0.02	-	-0.07	-0.02	-

Source: First Berlin Equity Research, PNE AG

Further approvals and tender awards in Germany are decisive for completing the up to 200 MW portfolio in 2020

Currently, as at the end of H1, the portfolio comprises the operating wind farms Kührstedt-Alfstedt (43.2 MW), Gerdau-Repowering (21.6 MW), and Schlenzer (6.5 MW), in total 71.3 MW. Further wind farms are under construction: Neuenwalde (7.2 MW), and Kittlitz (17.2 MW). The portfolio thus comprises 95.7 MW in total. The remaining projects are already identified within the German project pipeline (phase III projects: 302 MW at the end of September). The pipeline is thus well filled, but approval procedures remain very slow. PNE did not take part in the German onshore wind tender in October due to a lack of approved projects. The company however hopes to join the December tender, given that projects with a total capacity of ca. 26 MW will be approved in the meantime. We expect tender results to be published in mid December. We believe that approval procedures will remain slow in 2020 although the German government has started to implement measures to accelerate the process. We therefore no longer expect PNE to reach the maximum of 200 MW for the 2020 wind farm portfolio, but rather ca. 170 MW.

Forecasts for 2019E and 2020E adjusted We have lowered our 2019 EBIT forecast (see figure 2) as the Chilocco project in the US may not be sold this year. We however believe that the planned sale of the German Wölsickendorf project (16.8 MW) will partly balance this. Given the very high pricing in the May tender, when the project was awarded, of 6.13 €/kWh on average, we expect that it will be sold at an attractive margin. In the conference call, management stated that 2019 guidance looks set to be reached even without the sale of Chilocco. We have also taken the swap effect into account, which lowers the net result. We have reduced our 2020 forecast (EBIT new: €89.8m, previously: €100.9m) to reflect the increased probability that the 2020 wind farm portfolio will be smaller than previously assumed (new assumption: 170 MW, previously: 200 MW).

Figure 2: Revisions to forecasts

All figures in €m	2019E			2020E			2021E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	118.69	118.69	0.0%	218.10	206.10	-5.5%	151.67	151.67	0.0%
EBIT	18.01	17.01	-5.6%	100.88	89.84	-10.9%	19.13	19.13	0.0%
margin	15.2%	14.3%	-	46.3%	43.6%	-	12.6%	12.6%	-
Net income	6.79	3.03	-55.4%	76.51	67.65	-11.6%	13.93	13.93	0.0%
margin	5.7%	2.6%	-	35.1%	32.8%	-	9.2%	9.2%	-
EPS (diluted) in €	0.09	0.04	-55.4%	1.00	0.88	-11.8%	0.18	0.18	0.0%

Source: First Berlin Equity Research

Takeover offer of MSIP values PNE at €4.00 per share in cash MSIP's takeover offer as of 10 October 2019 values PNE at a premium of 31% to the closing price on 26 August 2019 when PNE confirmed talks with MSIP. The minimum acceptance ratio is 50% plus one share. PNE's Management Board and Supervisory Board support the offer. According to the deal website (<https://www.photon-angebot.de>), 14.9% of the shares have already been secured



for the offer, including the stake of the largest shareholder. Following approval by the German Federal Financial Supervisory Authority (BaFin), the offer document was published on 31 October 2019. With its publication the acceptance period commences for all outstanding shares of PNE not already directly held by Photon Management GmbH, a subsidiary of MSIP. The acceptance period ends on 28 November 2019 at midnight (CET).

Add rating reiterated at unchanged price target The MSIP takeover offer values PNE at €4.00 per share. We believe that this is an attractive offer for the shareholders and expect a successful takeover. Accordingly, we stick to our €4.00 price target. The rating remains Add.



INCOME STATEMENT

All figures in EUR '000	2015A	2016A	2017A	2018A	2019E	2020E	2021E
Revenues	109,524	248,577	114,076	91,379	118,686	206,095	151,667
Change in inventories	116,096	1,591	63,331	15,056	20,500	0	0
Other operating income	7,707	9,075	9,483	5,348	5,461	7,210	4,550
Total aggregate output	233,327	259,244	186,890	111,782	144,647	213,305	156,217
Cost of goods sold	-154,934	-96,951	-108,381	-36,696	-65,277	-50,905	-74,317
Gross profit	70,686	153,218	5,695	54,683	53,409	155,190	77,350
Personnel costs	-29,254	-25,423	-25,789	-27,780	-30,504	-32,100	-33,780
Other operating expenses	-29,504	-26,946	-24,125	-30,837	-20,802	-27,200	-22,500
EBITDA	19,635	109,924	28,595	16,469	28,064	103,100	25,620
Depreciation and amortisation	-9,870	-12,884	-5,466	-8,680	-11,055	-13,256	-6,488
Operating income (EBIT)	9,765	97,040	23,129	7,789	17,009	89,843	19,133
Interest Expense	-16,381	-17,331	-10,709	-10,593	-10,972	-7,109	-3,399
Interest Income	1,743	1,111	619	787	451	824	683
Other financial income / expenses	-86	736	1,022	15	-3,700	0	0
Pre-tax income (EBT)	-4,959	81,556	14,061	-2,002	2,787	83,558	16,416
Income taxes	3,570	-14,476	174	-403	-557	-16,712	-3,283
Minority interests	4,863	1,893	2,840	1,361	800	800	800
Net income / loss	3,474	68,973	17,075	-1,044	3,030	67,647	13,933
Diluted EPS (in €)	0.05	0.88	0.22	-0.01	0.04	0.88	0.18
Ratios							
Gross margin	64.5%	61.6%	5.0%	59.8%	45.0%	75.3%	51.0%
EBITDA margin on revenues	17.9%	44.2%	25.1%	18.0%	23.6%	50.0%	16.9%
EBIT margin on revenues	8.9%	39.0%	20.3%	8.5%	14.3%	43.6%	12.6%
Net margin on revenues	3.2%	27.7%	15.0%	-1.1%	2.6%	32.8%	9.2%
Tax rate	72.0%	17.7%	-1.2%	-20.1%	20.0%	20.0%	20.0%
Expenses as % of revenues							
Personnel costs	26.7%	10.2%	22.6%	30.4%	25.7%	15.6%	22.3%
Depreciation and amortisation	9.0%	5.2%	4.8%	9.5%	9.3%	6.4%	4.3%
Other operating expenses	26.9%	10.8%	21.1%	33.7%	17.5%	13.2%	14.8%
Y-Y Growth							
Revenues	-48.2%	127.0%	-54.1%	-19.9%	29.9%	73.6%	-26.4%
Operating income	264.4%	893.7%	-76.2%	-66.3%	118.4%	428.2%	-78.7%
Net income/ loss	n.m.	1885.4%	-75.2%	n.m.	n.m.	2132.7%	-79.4%



BALANCE SHEET

All figures in EUR '000	2015A	2016A	2017A	2018A	2019E	2020E	2021E
Assets							
Current assets, total	236,033	289,776	308,379	272,882	270,574	254,111	254,494
Cash and cash equivalents	86,075	147,686	193,984	129,071	106,574	112,458	126,137
Short-term investments	0	0	0	0	0	0	0
Receivables	7,969	13,187	5,119	6,355	9,755	16,939	16,621
Inventories	121,177	112,946	86,361	117,343	134,131	104,600	91,623
Other current assets	20,812	15,957	22,915	20,113	20,113	20,113	20,113
Non-current assets, total	252,231	142,218	184,905	179,724	228,012	152,927	155,388
Property, plant & equipment	167,347	39,230	103,872	96,130	144,418	69,333	71,794
Goodwill & other intangibles	63,105	67,400	66,825	65,053	65,053	65,053	65,053
Long-term investments / ass. companies	0	0	0	0	0	0	0
Other assets	21,779	35,588	14,208	18,541	18,541	18,541	18,541
Total assets	488,264	431,994	493,285	452,606	498,585	407,038	409,882
Shareholders' equity & debt							
Current liabilities, total	84,858	73,922	179,150	94,344	101,156	92,714	85,489
Short-term debt	35,857	2,163	107,109	26,131	30,000	20,000	20,000
Accounts payable	16,852	15,692	25,295	14,945	17,884	12,552	12,216
Current provisions	6,291	3,968	4,858	8,134	8,134	8,134	8,134
Other current liabilities	25,858	52,099	41,888	45,134	45,138	52,028	45,138
Long-term liabilities, total	237,478	128,685	78,915	141,988	181,988	41,988	41,988
Long-term debt	215,975	115,860	72,751	136,656	176,656	36,656	36,656
Deferred revenue	0	0	0	0	0	0	0
Other liabilities	21,503	12,825	6,163	5,332	5,332	5,332	5,332
Minority interests	-3,102	-5,393	-7,679	-13,938	-14,738	-15,538	-16,338
Shareholders' equity	169,030	234,781	242,899	230,212	230,179	287,874	298,744
Share capital	76,555	76,556	76,556	76,558	76,558	76,558	76,558
Capital reserve	82,287	82,288	82,288	82,292	82,292	82,292	82,292
Other reserves	-724	-997	-908	-385	-385	-385	-385
Treasury stock	0	0	0	-5,803	-5,803	-5,803	-5,803
Retained earnings	10,912	76,934	84,962	77,550	77,518	135,212	146,082
Total consolidated equity and debt	488,264	431,994	493,285	452,606	498,585	407,038	409,882
Ratios							
Current ratio (x)	2.78	3.92	1.72	2.89	2.67	2.74	2.98
Quick ratio (x)	1.35	2.39	1.24	1.65	1.35	1.61	1.91
Net cash	-165,757	29,663	14,124	-33,716	-100,081	55,802	69,481
Net gearing	98.1%	-12.6%	-5.8%	14.6%	43.5%	-19.4%	-23.3%
Book value per share (€)	2.16	2.92	2.99	2.83	2.81	3.56	3.69
Tangible book value per share (€)	1.37	2.11	2.18	2.00	1.99	2.73	2.86
Equity ratio (incl. minorities)	34.0%	53.1%	47.7%	47.8%	43.2%	66.9%	68.9%
Return on equity (ROE)	2.1%	29.4%	7.0%	-0.5%	1.3%	23.5%	4.7%
Return on assets (ROA)	4.1%	20.0%	5.6%	2.1%	2.8%	18.4%	4.2%
Return on investment (ROI)	0.7%	16.0%	3.5%	-0.2%	0.6%	16.6%	3.4%
Return on capital employed (ROCE)	3.1%	34.3%	10.5%	3.2%	5.9%	33.1%	8.7%
Days sales outstanding (DSO)	26.6	19.4	16.4	25.4	30.0	30.0	40.0
Days inventory outstanding (DIO)	285.5	425.2	290.8	1,167.2	750.0	750.0	450.0
Days payables outstanding (DPO)	39.7	59.1	85.2	148.7	100.0	90.0	60.0



CASH FLOW STATEMENT

All figures in EUR '000	2015A	2016A	2017A	2018A	2019E	2020E	2021E
EBIT	9,765	97,040	23,129	7,789	17,009	89,843	19,133
Depreciation and amortisation	9,898	12,884	5,466	8,680	11,055	13,256	6,488
EBITDA	19,663	109,924	28,595	16,469	28,064	103,100	25,620
Changes in working capital	-74,556	58,583	12,292	-49,523	-17,249	17,015	12,959
Other adjustments	-47,582	-104,081	-18,257	4,817	-14,779	-22,997	-6,000
Operating cash flow	-102,475	64,426	22,630	-28,237	-3,964	97,118	32,580
Investments in PP&E	-2,903	-108,699	-70,015	-4,564	-59,343	61,829	-8,948
Investments in intangibles	0	0	0	0	0	0	0
Free cash flow	-105,378	-44,273	-47,385	-32,801	-63,307	158,946	23,631
Acquisitions & disposals, net	23,258	106,876	51,300	756	0	0	0
Other investments	-255	-418	-7,535	0	0	0	0
Cash flow from investing	20,100	-2,241	-26,250	-3,808	-59,343	61,829	-8,948
Debt financing, net	97,715	23,171	59,106	-13,859	43,869	-150,000	0
Equity financing, net	9,454	0	0	-5,803	0	0	0
Dividends paid	-3,062	-3,062	-9,187	-3,062	-3,058	-3,062	-9,953
Other financing	-2,221	0	0	-9,871	0	0	0
Cash flow from financing	101,886	20,109	49,919	-32,595	40,811	-153,062	-9,953
Forex and other changes in cash	-5,611	-20,684	-1	-274	0	0	0
Net cash flows	13,900	61,609	46,298	-64,913	-22,497	5,884	13,679
Cash, start of the year	72,175	86,076	147,686	193,984	129,071	106,574	112,458
Cash, end of the year	86,075	147,686	193,984	129,071	106,574	112,458	126,137
EBITDA/share (in €)	0.26	1.40	0.36	0.21	0.37	1.35	0.33
Operating cashflow/share (in €)	-1.33	0.82	0.29	-0.36	-0.05	1.27	0.43
Y-Y Growth							
Operating cash flow	n.m.	n.m.	-64.9%	n.m.	n.m.	n.m.	-66.5%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	-85.1%
EBITDA/share	40.4%	447.5%	-74.0%	-42.4%	75.0%	267.4%	-75.2%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	31 March 2008	€2.38	Buy	€4.50
2...99	↓	↓	↓	↓
100	9 August 2019	€3.02	Buy	€3.80
101	29 August 2019	€3.50	Add	€3.80
102	14 October 2019	€3.98	Add	€4.00
103	Today	€3.95	Add	€4.00

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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

The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

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

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