

PNE WIND AG

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

Capital Markets Day

RATING
BUY

PRICE TARGET
€ 3.80

Return Potential 34.9%
 Risk Rating High

DEVELOPING INTO A CLEAN ENERGY SOLUTION PROVIDER

At its 15 November Capital Markets Day, PNE Wind announced its strategy to transform the company from a wind project developer into a clean energy solution provider active in wind and photovoltaics (PV) project development, storage, power-to-gas, energy supply management, and energy services. Furthermore, PNE wants to expand into new markets such as Central America, the Middle and Far East, and Africa, which look set to show strong growth in coming years. Given more competitive and often stagnating European markets, we see regional expansion as a future growth driver for PNE. The transformation of energy markets towards clean and distributed energy production is a global trend, an ecological necessity, and current or future an economic advantage. This transformation creates new business models and drives new markets such as storage and sector coupling. We believe that PNE's new strategy opens up new growth areas for the company and derisks the business model, which in the past was almost completely dependent on wind project development—a volatile business prone to regulatory changes. PNE plans to increase average annual EBIT by 30-50%, and reduce earnings volatility in the medium term. We have increased our medium-term EBIT forecasts and the price target to €3.80 (previously: €3.70). We reiterate our Buy rating.

Expanding business model from a position of strength PNE Wind is one of the most successful German wind project developers. Onshore, the company is active in 13 countries on three continents and has developed wind farms with a total capacity of 2.6 GW. Offshore, it has sold projects with a total capacity of more than 2.8 GW in the North Sea and is thus Germany's most successful offshore wind farm developer. Furthermore, PNE is a large operation & maintenance (O&M) manager in Germany with more than 1.5 GW under management. In 2016, the company sold a 142 MW wind farm portfolio to Allianz and generated EBIT of €97m. This was its third large deal. In 2012, PNE sold the Gode Wind offshore wind farm pipeline (>900 MW) to Ørsted... (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016	2017E	2018E	2019E
Revenue (€m)	211.27	109.52	248.58	122.30	125.70	198.69
Y-o-y growth	46.7%	-48.2%	127.0%	-50.8%	2.8%	58.1%
EBIT (€m)	2.68	9.77	97.04	22.42	16.64	19.01
EBIT margin	1.3%	8.9%	39.0%	18.3%	13.2%	9.6%
Net income (€m)	-12.99	3.47	68.97	12.26	9.26	9.22
EPS (diluted) (€)	-0.21	0.05	0.88	0.16	0.12	0.12
DPS (€)	0.04	0.04	0.12	0.04	0.04	0.04
FCF (€m)	-34.33	-105.38	-44.27	-12.98	-49.15	-150.58
Net gearing	64.9%	98.1%	-12.6%	-3.1%	17.9%	77.4%
Liquid assets (€m)	72.18	86.08	147.69	133.36	116.15	67.51

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 WIND 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.

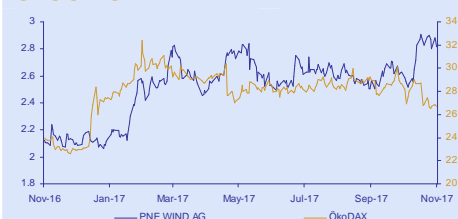
MARKET DATA

As of 22 Nov 2017

Closing Price	€ 2.82
Shares outstanding	76.56m
Market Capitalisation	€ 215.58m
52-week Range	€ 2.06 / 2.91
Avg. Volume (12 Months)	262,860

Multiples	2016	2017E	2018E
P/E	3.2	17.8	23.5
EV/Sales	0.8	1.6	1.6
EV/EBIT	2.0	8.7	11.8
Div. Yield	4.3%	1.4%	1.4%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2017

Liquid Assets	€ 162.59m
Current Assets	€ 301.67m
Intangible Assets	€ 66.97m
Total Assets	€ 438.95m
Current Liabilities	€ 168.34m
Shareholders' Equity	€ 234.47m

SHAREHOLDERS

Internat. Kapitalanlageges. mbH	10.0%
Active Ownership Fund SCS	5.1%
Axxion S.A.	3.2%
Free Float	81.8%



...(formerly DONG Energy) and received €134m (plus possible future milestone payments of up to €24m), and in 2015, it sold its 1,200 MW UK onshore pipeline to Brookfield for GBP 40m plus possible milestone payments of GBP 63m. At the end of September 2017, PNE had a net cash position of €13m and equity of €234m equivalent to an equity ratio of 53%. The strong balance sheet offers ample scope for financing the expansion of the business model.

Expansion of business model looks set to reduce business risks and smooth out earnings volatility In the past, PNE's business model was almost completely dependent on (onshore and offshore) wind farm project development. Project development is a time-consuming (development time: ca. 3-5 years for onshore, often more for offshore) and volatile business prone to regulatory changes. Although PNE has already diversified its business and is active in 13 countries, dependence on the German market is still high. By transforming the company into a clean energy solution provider active in wind and PV project development, storage, power-to-gas, energy supply management, and energy services, risk will be diversified over different technologies and services. Furthermore, combining the mentioned technologies & services looks set to create a competitive advantage as energy consumers' demand will necessarily shift to green energy sources, but at the same time, security of energy supply remains vital. By expanding its business model, PNE will be able to offer both, green energy and supply security. We thus believe that PNE's new strategy opens up new growth areas for the company.

Furthermore, PNE wants to expand into new markets such as Central America, the Middle and Far East, and Africa. These emerging wind markets harbour strong growth in coming years and could compensate for more competitive and often stagnating European markets.

Stronger focus on services PNE plans to offer additional services such as operations management and solutions for the financing of renewable energy projects. The company does not rule out inorganic growth through cooperation, investments or takeovers of companies from the photovoltaic, battery, and storage industry. In addition, the generation of power from internal capacity will be upgraded through electricity trading and the marketing of electricity and gas. The service business usually offers rather stable recurring revenues at attractive margins. A higher service revenue share could act as a stabilising element.

First step to expand business model already done... PNE has established a group of specialised employees in Hamburg to develop and realise business opportunities with new products and in new markets. This "Smart Development" unit pursues an integrated project approach that combines various renewable energies and storage technologies, optimises entry into and exit from new markets, shortens the time to project success and avoids high upfront expenditures in projects.

...and further steps to be implemented by 2023 In 2018E, PNE plans to generate first revenues with its new products and services and find partners. In 2019E, it wants to start developing a project pipeline in its first new market, and a first PV project. In 2020E, the company envisions selling its first project in a new market and the first hybrid project. Furthermore, a first power purchase agreement (PPA) in a foreign country is to be closed. By 2023, PNE plans to enter further markets, offer further products, and conclude the business model transformation.

Right strategy, but execution risks remain We believe that PNE's strategy fits neatly to the overall transformation of the global energy sector. But expanding into new technologies (very different from wind, such as storage and power-to-gas) as well as into new markets far away (both geographically and culturally) from the European home base is an ambitious task requiring technological and international management skills. The Smart Development unit in Hamburg has been a good start. Whether PNE will manage to generate additional profitable growth will probably not be visible before 2020E.



PNE secured €25m financing line for equity capital PNE agreed on an equity financing line for the 200 MW wind farm portfolio with IKB Deutsche Industriebank AG. The line is to finance equity capital for German and French wind farms that are intended to be included in the new international portfolio. Wind farms with a total capacity of 43 MW are already under construction.

PNE plans to sell the remaining 20% of the 142 MW wind farm portfolio to Allianz The legally binding signing of the agreement is scheduled to take place by the end of 2017. We expect PNE to receive a cash inflow of more than €20m. The funds are to finance the establishment of the new 200 MW European wind farm portfolio.

Forecasts slightly adjusted We have increased our CAPEX projections to account for the announced investments in new technologies. We have also increased our medium-term EBIT forecasts, as we believe that PNE will be successful in expanding its business model and thus generate higher operating profits. As PNE looks set to sell more project rights and fewer commissioned projects, we lower our 2018E revenue forecast.

Figure 1: Revisions to forecasts

All figures in €m	2017E			2018E			2019E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	122.30	122.30	0.0%	180.62	125.70	-30.4%	198.69	198.69	0.0%
EBIT	22.42	22.42	0.0%	16.64	16.64	0.0%	18.78	19.01	1.2%
<i>margin</i>	18.3%	18.3%		9.2%	13.2%		9.5%	9.6%	
Net income	12.26	12.26	0.0%	9.43	9.26	-1.8%	9.03	9.22	2.1%
<i>margin</i>	10.0%	10.0%		5.2%	7.4%		4.5%	4.6%	
EPS (diluted) in €	0.16	0.16	0.0%	0.12	0.12	-1.8%	0.11	0.12	2.0%

Source: First Berlin Equity Research

Buy reiterated at slightly higher price target An updated DCF model yields a new price target of €3.80 (previously: €3.70). We confirm our Buy rating.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000								
	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Net sales	122,300	125,700	198,686	268,095	201,667	205,700	209,814	214,011
NOPLAT	19,829	14,798	17,125	84,013	16,106	16,098	16,259	15,559
+ depreciation & amortisation	6,473	10,369	14,002	19,975	7,695	8,066	8,382	8,646
Net operating cash flow	26,302	25,167	31,127	103,988	23,801	24,165	24,641	24,205
- total investments (CAPEX, WC, other)	-31,829	-67,690	-172,606	182,826	11,185	-11,963	-11,523	-11,057
Capital expenditures	-70,934	-81,705	-105,304	160,857	-11,825	-11,575	-11,311	-11,031
Working capital	41,115	14,825	-66,597	22,674	21,715	-1,893	-1,938	-1,984
Free cash flows (FCF)	-5,527	-42,523	-141,479	286,814	34,986	12,202	13,119	13,147
PV of FCF's	-5,486	-39,414	-122,448	231,748	26,396	8,596	8,630	8,074

All figures in thousands	
PV of FCFs in explicit period (2017E-2031E)	165,418
PV of FCFs in terminal period	116,788
Enterprise value (EV)	282,206
+ Net cash / - net debt	20,063
+ Investments / minority interests	-5,393
Shareholder value	296,876

Fair value per share in EUR	3.80
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WACC	7.1%
Cost of equity	11.8%
Pre-tax cost of debt	7.0%
Tax rate	25.0%
After-tax cost of debt	5.3%
Share of equity capital	28.0%
Share of debt capital	72.0%

Fair value per share in EUR	3.80
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	Terminal growth rate						
	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
4.1%	6.28	6.60	7.24	8.18	9.72	12.67	20.58
5.1%	5.04	5.12	5.41	5.80	6.33	7.12	8.40
6.1%	4.22	4.21	4.36	4.55	4.79	5.11	5.56
7.1%	3.64	3.59	3.67	3.78	3.90	4.06	4.26
8.1%	3.20	3.20	3.18	3.24	3.31	3.40	3.50
9.1%	2.85	2.77	2.81	2.84	2.89	2.94	2.99
10.1%	2.56	2.49	2.51	2.53	2.56	2.59	2.63

* for layout purposes the model shows numbers only to 2024, but runs until 2031



INCOME STATEMENT

All figures in EUR '000	2014A	2015A	2016A	2017E	2018E	2019E
Revenues	211,268	109,524	248,577	122,300	125,700	198,686
Change in inventories	19,078	116,096	1,591	20,000	0	0
Other operating income	3,603	7,707	9,075	10,396	5,419	5,961
Total aggregate output	233,949	233,327	259,244	152,696	131,119	204,647
Cost of goods sold	-170,496	-154,934	-96,951	-74,603	-51,644	-116,947
Gross profit	59,850	70,686	153,218	47,697	74,056	81,739
Personnel costs	-27,041	-29,254	-25,423	-24,200	-25,314	-26,483
Other operating expenses	-25,206	-29,504	-26,946	-25,000	-27,152	-28,202
EBITDA	11,206	19,635	109,924	28,893	27,009	33,015
Depreciation and amortisation	-8,526	-9,870	-12,884	-6,473	-10,369	-14,002
Operating income (EBIT)	2,680	9,765	97,040	22,420	16,639	19,013
Interest Expense	-14,934	-16,381	-17,331	-10,731	-10,035	-12,802
Interest Income	2,422	1,743	1,111	367	503	795
Income from participations & ass. companies	-5,334	-86	736	900	2,100	2,205
Pre-tax income (EBT)	-15,166	-4,959	81,556	12,956	9,207	9,211
Income taxes	-3,131	3,570	-14,476	-2,591	-1,841	-1,888
Minority interests	5,305	4,863	1,893	1,893	1,893	1,893
Net income / loss	-12,992	3,474	68,973	12,258	9,259	9,216
Diluted EPS (in €)	-0.21	0.05	0.88	0.16	0.12	0.12
Ratios						
Gross margin	28.3%	64.5%	61.6%	39.0%	58.9%	41.1%
EBITDA margin on revenues	5.3%	17.9%	44.2%	23.6%	21.5%	16.6%
EBIT margin on revenues	1.3%	8.9%	39.0%	18.3%	13.2%	9.6%
Net margin on revenues	-6.1%	3.2%	27.7%	10.0%	7.4%	4.6%
Tax rate	-20.6%	72.0%	17.7%	20.0%	20.0%	20.5%
Expenses as % of revenues						
Personnel costs	12.8%	26.7%	10.2%	19.8%	20.1%	13.3%
Depreciation and amortisation	4.0%	9.0%	5.2%	5.3%	8.2%	7.0%
Other operating expenses	11.9%	26.9%	10.8%	20.4%	21.6%	14.2%
Y-Y Growth						
Revenues	46.7%	-48.2%	127.0%	-50.8%	2.8%	58.1%
Operating income	-93.8%	264.4%	893.7%	-76.9%	-25.8%	14.3%
Net income/ loss	n.m.	n.m.	1885.4%	-82.2%	-24.5%	-0.5%



BALANCE SHEET

All figures in EUR '000	2014A	2015A	2016A	2017E	2018E	2019E
Assets						
Current assets, total	265,935	236,033	289,776	230,902	195,095	223,789
Cash and cash equivalents	72,175	86,075	147,686	133,355	116,148	67,510
Short-term investments	0	0	0	0	0	0
Receivables	20,098	7,969	13,187	10,052	12,053	21,774
Inventories	152,389	121,177	112,946	71,537	50,937	118,549
Other current assets	20,075	19,332	15,203	15,203	15,203	15,203
Non-current assets, total	150,900	252,231	142,218	206,679	278,015	369,316
Property, plant & equipment	73,655	167,347	39,230	103,691	175,027	266,328
Goodwill & other intangibles	63,926	63,105	67,400	67,400	67,400	67,400
Long-term investments / ass. companies	0	0	0	0	0	0
Other assets	13,319	21,779	35,588	35,588	35,588	35,588
Total assets	416,835	488,264	431,994	437,581	473,110	593,105
Shareholders' equity & debt						
Current liabilities, total	95,034	84,858	73,922	163,066	109,292	254,035
Short-term debt	34,940	35,857	2,163	100,860	50,860	184,869
Accounts payable	21,476	16,852	15,692	12,264	8,490	19,224
Current provisions	3,908	6,291	3,968	3,968	3,968	3,968
Other current liabilities	34,710	25,858	52,099	45,974	45,974	45,974
Long-term liabilities, total	161,606	237,478	128,685	37,825	122,825	93,816
Long-term debt	141,207	215,975	115,860	25,000	110,000	80,991
Deferred revenue	0	0	0	0	0	0
Other liabilities	20,399	21,503	12,825	12,825	12,825	12,825
Minority interests	33	-3,102	-5,393	-7,286	-9,179	-11,072
Shareholders' equity	160,162	169,030	234,781	243,976	250,173	256,327
Share capital	71,975	76,555	76,556	76,556	76,556	76,556
Capital reserve	77,803	82,287	82,288	82,288	82,288	82,288
Other reserves	-296	-724	-997	-997	-997	-997
Treasury stock	0	0	0	0	0	0
Retained earnings	10,680	10,912	76,934	86,130	92,326	98,480
Total consolidated equity and debt	416,835	488,264	431,994	437,581	473,110	593,105
Ratios						
Current ratio (x)	2.80	2.78	3.92	1.42	1.79	0.88
Quick ratio (x)	1.19	1.35	2.39	0.98	1.32	0.41
Net cash	-103,972	-165,757	29,663	7,495	-44,712	-198,350
Net gearing	64.9%	98.1%	-12.6%	-3.1%	17.9%	77.4%
Book value per share (€)	2.60	2.20	2.99	3.10	3.18	3.26
Tangible book value per share (€)	1.62	1.41	2.18	2.30	2.38	2.45
Equity ratio (incl. minorities)	38.4%	34.0%	53.1%	54.1%	50.9%	41.4%
Return on equity (ROE)	-8.1%	2.1%	29.4%	5.0%	3.7%	3.6%
Days sales outstanding (DSO)	34.7	26.6	19.4	30.0	35.0	40.0
Days inventory outstanding (DIO)	326.2	285.5	425.2	350.0	360.0	370.0
Days payables outstanding (DPO)	46.0	39.7	59.1	60.0	60.0	60.0



CASH FLOW STATEMENT

All figures in EUR '000	2014A	2015A	2016A	2017E	2018E	2019E
EBIT	2,681	9,765	97,040	22,420	16,639	19,013
Depreciation and amortisation	8,554	9,898	12,884	6,473	10,369	14,002
EBITDA	11,235	19,663	109,924	28,893	27,009	33,015
Changes in working capital	-28,886	-74,556	58,583	41,115	14,825	-66,597
Other adjustments	-11,845	-47,582	-104,081	-12,055	-9,274	-11,690
Operating cash flow	-29,496	-102,475	64,426	57,953	32,559	-45,272
Investments in PP&E	-4,829	-2,903	-108,699	-70,934	-81,705	-105,304
Investments in intangibles	0	0	0	0	0	0
Free cash flow	-34,325	-105,378	-44,273	-12,981	-49,146	-150,576
Acquisitions & disposals, net	-81	23,258	106,876	0	0	0
Other investments	0	-255	-418	0	0	0
Cash flow from investing	-4,910	20,100	-2,241	-70,934	-81,705	-105,304
Debt financing, net	11,137	97,715	23,171	7,837	35,000	105,000
Equity financing, net	33,435	9,454	0	0	0	0
Dividends paid	-8,229	-3,062	-3,062	-9,187	-3,062	-3,062
Other financing	-2,302	-2,221	0	0	0	0
Cash flow from financing	34,041	101,886	20,109	-1,350	31,938	101,938
Forex and other changes in cash	-4,862	-5,611	-20,684	0	0	0
Net cash flows	-5,227	13,900	61,609	-14,331	-17,208	-48,638
Cash, start of the year	77,402	72,175	86,076	147,686	133,355	116,148
Cash, end of the year	72,175	86,075	147,686	133,355	116,148	67,510
EBITDA/share (in €)	0.18	0.26	1.40	0.37	0.34	0.42
Operating cashflow/share (in €)	-0.48	-1.33	0.82	0.74	0.41	-0.58
Y-Y Growth						
Operating cash flow	n.m.	n.m.	n.m.	-10.0%	-43.8%	n.m.
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	-81.2%	40.4%	447.5%	-73.7%	-6.5%	22.2%

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...87	↓	↓	↓	↓
88	13 July 2017	€2.60	Buy	€3.50
89	14 August 2017	€2.62	Buy	€3.50
90	9 November 2017	€2.89	Buy	€3.70
91	Today	€2.82	Buy	€3.80

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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:

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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Legally required information regarding

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

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