

PNE AG

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

Q3 figures

RATING
BUY

PRICE TARGET
€ 3.60

Return Potential 44.3%
 Risk Rating High

STRONG Q4 EXPECTED

PNE reported Q3 figures below the previous year's figures and our forecasts. EBIT was slightly negative at €0.3m. On a nine month basis, EBIT amounted to €3.7m. In Q3, PNE received another offshore milestone payment from Oersted for the Borkum Riffgrund II project amounting to ca. €4m. Onshore construction activity increased q/q from 66 MW to 93 MW. Management reiterated guidance (EBITDA: €20-26m, EBIT €10-16m). We believe that PNE will reach its guidance and expect a strong Q4, but lower our 2018 & 2019 forecasts following the weaker than expected Q3 results and a lack of projects awarded in Germany. We maintain our Buy rating based on a slightly lower price target of €3.60 (previously: €3.80).

Weak Q3 figures Q3 revenues were down 73% y/y at €11.4m (Q3/17: €41.8m FBe: €19.6m). We note that Q3/17 was an extraordinary successful quarter due to project rights sales and a purchase price payment of €21.4m for the optimisation of the 142 MW portfolio sold to Allianz. Q3 EBIT was slightly negative at €-0.3m (Q3/17: €28.6m, FBe: €2.4m). Interest expenses were significantly lower q/q following the repayment of the €100m bond in H1. In Q3, interest expenses amounted to €1.6m versus €2.3m in Q2/18. The net result was €-1.7m (Q3/17: €22.8m, FBe: €0.5m). On a nine month basis, EBIT amounted to €3.7m and the net result was €-2.0m (see figure 1 overleaf).

Guidance reiterated Management reiterated full-year guidance (EBITDA €20-26m, EBIT €10-16m). Given the 9M EBIT of €3.7m and the fact that projects are usually sold in Q4 following construction in the first nine months, we believe that PNE will reach its guidance.

Balance sheet remains strong At the end of Q3, the cash position was €117m, financial liabilities amounted to €162m, of which €40m were short-term. The net debt position was thus at a moderate value of €44m. Equity amounted to €222m corresponding to a very solid equity ratio of 50%. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2015	2016	2017	2018E	2019E	2020E
Revenue (€m)	109.52	248.58	114.08	109.70	178.69	268.10
Y-o-y growth	-48.2%	127.0%	-54.1%	-3.8%	62.9%	50.0%
EBIT (€m)	9.77	97.04	23.13	12.63	15.76	104.32
EBIT margin	8.9%	39.0%	20.3%	11.5%	8.8%	38.9%
Net income (€m)	3.47	68.97	17.08	4.57	5.94	76.94
EPS (diluted) (€)	0.05	0.88	0.22	0.06	0.08	0.98
DPS (€)	0.04	0.12	0.04	0.04	0.04	0.13
FCF (€m)	-105.38	-44.27	-47.39	-55.05	-140.61	261.33
Net gearing	98.1%	-12.6%	-5.8%	18.0%	75.9%	-22.5%
Liquid assets (€m)	86.08	147.69	193.98	108.76	75.09	223.37

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 08 Nov 2018

Closing Price	€ 2.50
Shares outstanding	76.56m
Market Capitalisation	€ 191.01m
52-week Range	€ 2.25 / 3.18
Avg. Volume (12 Months)	287,573

Multiples	2017	2018E	2019E
P/E	11.4	43.0	33.0
EV/Sales	1.6	1.6	1.0
EV/EBIT	7.6	14.0	11.2
Div. Yield	1.6%	1.6%	1.6%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2018

Liquid Assets	€ 117.30m
Current Assets	€ 268.12m
Intangible Assets	€ 65.20m
Total Assets	€ 442.86m
Current Liabilities	€ 92.66m
Shareholders' Equity	€ 221.73m

SHAREHOLDERS

Internat. Kapitalanlageges. mbH	10.1%
Active Ownership Fund SCS	5.1%
Axxion S.A.	3.2%
Other investors	6.1%
Free Float	75.6%

**Figure 1: Reported figures versus forecasts**

All figures in €m	Q3-18A	Q3-18E	Delta	Q3-17A	Delta	9M 2018	9M 2017	Delta
Sales	11.45	19.59	-41.6%	41.79	-72.6%	39.86	81.24	-50.9%
EBIT	-0.34	2.45	-	28.61	-	3.72	23.66	-84.3%
margin	-2.9%	12.5%		68.5%		9.3%	29.1%	
Net income	-1.71	-0.49	-	22.80	-	-1.98	16.32	-
margin	-14.9%	-2.5%		54.6%		-5.0%	20.1%	
EPS (diluted) in €	-0.02	-0.01	-	0.29	-	-0.02	0.21	-

Source: First Berlin Equity Research, PNE AG

Negative operating cash flow due to inventory buildup Operating cash flow amounted to €-48m due mainly to a €37m increase in inventories and other assets. This increase reflects higher construction activity during H2 and looks set to be reversed when projects are completed and sold, which we expect to happen in Q4. Cash outflow from investing activities was €10.6m, driven by CAPEX of €2.6m and investment in consolidated entities amounting to €8.2m. The latter investment largely reflects the purchase of the stake subsidiary WKN, which PNE did not already own. Cash flow from financing was €-18.3m. PNE paid back the €100m bond, issued a €50m bond, and took on loans amounting to €47m. Furthermore, loan and bond redemptions were €12m and dividend payment €3m. Net cash flow was €77m.

Onshore construction activity higher in Q3 At the end of September, wind farm projects with a total capacity of 93 MW were under construction in Germany, France, and Sweden. One project (25 MW) is being built as a service project. At the end of Q2, 66 MW were under construction.

Another offshore milestone payment in Q3 In Q3, PNE received a €4m milestone payment from Oersted for the Borkum Riffgrund II offshore wind farm project. This was the second milestone payment this year. As in Q2, PNE also received €4m for the Gode Wind 3 project.

Development of 200 MW wind farm portfolio postpones profits into the future PNE has been developing a 200 MW onshore wind portfolio which is to be sold in 2020E. Since 2017, EBT accrued in this portfolio has amounted to ca. €20.9m, of which ca. €8.5m have been generated in 9M/18. Profits will be realised when the project is sold. Currently, the portfolio comprises the operating Kührstedt-Alfstedt wind farm (43.2 MW). The Gerdau-Schwiebau and Schlenzer wind farms (21.6 MW + 6.5 MW = 28.1 MW) will be added after commissioning, which we expect in the coming months. This would increase the portfolio to 71.3 MW or more than one third of the planned total size.

No awards in the last two German tenders PNE was awarded three projects with a total capacity of 49 MW in the first two German tenders. These projects are already under construction. However, PNE did not take part in the last two tenders in August and October due to a lack of approved projects. As the three aforementioned projects will probably be completed this year, PNE currently does not have any new German projects for construction in 2019. It thus needs approvals, and awards in the first two 2019 tenders in February and May. However, approval procedures are currently slow, and it thus takes much longer to receive an approval.

Project pipeline shows q/q improvement At the end of Q3, the volume of phase IV projects (implementation phase) was 68 MW versus 41 MW at the end of Q2 due to progress made in Germany. The volume of phase III projects (planning phase) increased from 914 MW at the end of Q2 to 1,065 MW at the end of Q3. This increase is based on



progress in Germany (142 MW versus 131 MW at the end of Q2), France (133 MW versus 124 MW), and Poland (173 MW versus 42 MW).

Electricity generation segment contributed €3.9m EBITDA in Q3 In the first nine months, the electricity generation segment, which has a total wind capacity of 55 MW, contributed €9.1m in EBITDA and €3.6m in EBIT. In Q3, EBITDA and EBIT contributions were €3.9m and €2.0 respectively. During the buildup of the 200 MW portfolio, the segment's earnings contribution will rise further.

Share buy-back programme to start on 12 November PNE plans to buy back 2.19m shares (ca. 2.9% of the registered shares) within a purchase price range of €2.25 - 2.74. PNE may use the shares to repay the 2014/19 convertible bond (volume: €6.6m, coupon 3.75%, conversion price: €3.00, number of potential new shares 2.06m). The buy-back programme will end on 30 November and looks set to be the main share price driver in November.

Extra tenders in Germany The German government has agreed on extra tenders as stipulated in the coalition treaty. However, the extra 4 GW are now distributed over three instead of the two years originally planned: 1.0 GW in 2019, 1.4 GW in 2020, and 1.6 GW in 2021. These extra tenders come on top of the normal tenders (2.8 GW in 2019 and 2.9 GW both in 2020 & 2021). Total tender volume will thus amount to 3.8 GW in 2019, 4.3 GW in 2020, and 4.5 GW in 2021. This could give the German market a push in coming years provided that approval procedures are accelerated again, and enough projects receive approval.

Forecasts lowered for 2018E and 2019E Given the weaker than expected Q3 EBIT and the lack of new German project awards, we believe that EBIT this and next year will be lower than previously expected (see figure 2). We nevertheless expect a strong Q4 EBIT of €8.9m due to project and/or project right sales. We believe that two German projects (20.7 MW & 7.6 MW), a French project (19.2 MW), or US project rights (200 MW) could be sold by the end of December.

Figure 2: Revisions to forecasts

All figures in €m	2018E			2019E			2020E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	125.70	109.70	-12.7%	198.69	178.69	-10.1%	268.10	268.10	0.0%
EBIT	15.53	12.63	-18.6%	19.39	15.76	-18.7%	104.54	104.32	-0.2%
margin	12.4%	11.5%		9.8%	8.8%		39.0%	38.9%	
Net income	9.37	4.57	-51.3%	10.94	5.94	-45.7%	79.12	76.94	-2.8%
margin	7.5%	4.2%		5.5%	3.3%		29.5%	28.7%	
EPS (diluted) in €	0.12	0.06	-51.3%	0.14	0.08	-45.6%	1.01	0.98	-2.8%

Source: First Berlin Equity Research

Buy reiterated at a slightly lower price target Based on an updated DCF model that accounts for the lower forecasts, we lower our price target to €3.60 (previously: €3.80). At the current share price level, the stock remains attractively valued. At the end of September, equity book value per share amounted to €2.90 and tangible book value (equity minus goodwill) per share to ca. €2.07. We reiterate our Buy rating.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000								
	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Net sales	109,700	178,686	268,095	201,667	205,700	209,814	214,011	218,291
NOPLAT	11,794	14,474	85,286	10,631	11,384	12,217	12,333	12,438
+ depreciation & amortisation	9,445	14,255	20,220	9,701	9,898	10,059	10,186	10,279
Net operating cash flow	21,239	28,729	105,507	20,332	21,282	22,276	22,518	22,718
- total investments (CAPEX, WC, other)	-67,859	-160,004	165,974	-4,463	-12,387	-12,201	-12,002	-11,790
Capital expenditures	-65,820	-142,949	160,857	-11,898	-11,688	-11,463	-11,226	-10,974
Working capital	-2,039	-17,055	4,117	6,436	-1,699	-1,738	-1,776	-1,816
Free cash flows (FCF)	-46,620	-131,276	271,480	15,869	8,895	10,075	10,516	10,927
PV of FCF's	-46,164	-121,381	234,348	12,791	6,695	7,081	6,900	6,695

All figures in thousands	
PV of FCFs in explicit period (2018E-2032E)	156,642
PV of FCFs in terminal period	122,110
Enterprise value (EV)	278,752
+ Net cash / - net debt	14,125
+ Investments / minority interests	-7,679
Shareholder value	285,198

Fair value per share in EUR	3.62
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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%
Price target in EUR	3.60

WACC	Terminal growth rate						
	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
4.1%	5.87	6.39	7.10	8.16	9.88	13.18	22.03
5.1%	4.65	4.91	5.25	5.69	6.31	7.22	8.70
6.1%	3.85	4.00	4.19	4.41	4.70	5.09	5.62
7.1%	3.29	3.39	3.49	3.62	3.78	3.98	4.23
8.1%	2.88	3.03	3.00	3.08	3.18	3.29	3.42
9.1%	2.55	2.59	2.64	2.69	2.75	2.81	2.89
10.1%	2.29	2.32	2.35	2.38	2.42	2.46	2.51

* for layout purposes the model shows numbers only to 2025, but runs until 2032



INCOME STATEMENT

All figures in EUR '000	2014A	2015A	2016A	2017A	2018E	2019E	2020E
Revenues	211,268	109,524	248,577	114,076	109,700	178,686	268,095
Change in inventories	19,078	116,096	1,591	63,331	0	0	0
Other operating income	3,603	7,707	9,075	9,483	5,419	6,961	7,210
Total aggregate output	233,949	233,327	259,244	186,890	115,119	185,647	275,305
Cost of goods sold	-170,496	-154,934	-96,951	-108,381	-43,880	-103,638	-93,833
Gross profit	59,850	70,686	153,218	5,695	65,820	75,048	174,262
Personnel costs	-27,041	-29,254	-25,423	-25,789	-26,821	-27,893	-28,730
Other operating expenses	-25,206	-29,504	-26,946	-24,125	-22,338	-24,102	-28,200
EBITDA	11,206	19,635	109,924	28,595	22,080	30,014	124,542
Depreciation and amortisation	-8,526	-9,870	-12,884	-5,466	-9,445	-14,255	-20,220
Operating income (EBIT)	2,680	9,765	97,040	23,129	12,635	15,759	104,321
Interest Expense	-14,934	-16,381	-17,331	-10,709	-9,812	-11,011	-11,219
Interest Income	2,422	1,743	1,111	619	384	679	1,072
Income from participations & ass. companies	-5,334	-86	736	1,022	1,000	1,000	1,000
Pre-tax income (EBT)	-15,166	-4,959	81,556	14,061	4,207	6,427	95,175
Income taxes	-3,131	3,570	-14,476	174	-841	-1,285	-19,035
Minority interests	5,305	4,863	1,893	2,840	1,200	800	800
Net income / loss	-12,992	3,474	68,973	17,075	4,565	5,942	76,940
Diluted EPS (in €)	-0.21	0.05	0.88	0.22	0.06	0.08	0.98

Ratios

Gross margin	28.3%	64.5%	61.6%	5.0%	60.0%	42.0%	65.0%
EBITDA margin on revenues	5.3%	17.9%	44.2%	25.1%	20.1%	16.8%	46.5%
EBIT margin on revenues	1.3%	8.9%	39.0%	20.3%	11.5%	8.8%	38.9%
Net margin on revenues	-6.1%	3.2%	27.7%	15.0%	4.2%	3.3%	28.7%
Tax rate	-20.6%	72.0%	17.7%	-1.2%	20.0%	20.0%	20.0%

Expenses as % of revenues

Personnel costs	12.8%	26.7%	10.2%	22.6%	24.4%	15.6%	10.7%
Depreciation and amortisation	4.0%	9.0%	5.2%	4.8%	8.6%	8.0%	7.5%
Other operating expenses	11.9%	26.9%	10.8%	21.1%	20.4%	13.5%	10.5%

Y-Y Growth

Revenues	46.7%	-48.2%	127.0%	-54.1%	-3.8%	62.9%	50.0%
Operating income	-93.8%	264.4%	893.7%	-76.2%	-45.4%	24.7%	562.0%
Net income/ loss	n.m.	n.m.	1885.4%	-75.2%	-73.3%	30.2%	1194.9%



BALANCE SHEET

All figures in EUR '000	2014A	2015A	2016A	2017A	2018E	2019E	2020E
Assets							
Current assets, total	265,935	236,033	289,776	308,379	214,330	200,326	345,440
Cash and cash equivalents	72,175	86,075	147,686	193,984	108,764	75,095	223,367
Short-term investments	0	0	0	0	0	0	0
Receivables	20,098	7,969	13,187	5,119	10,519	17,134	22,035
Inventories	152,389	121,177	112,946	86,361	72,132	85,182	77,123
Other current assets	21,273	20,812	15,957	22,915	22,915	22,915	22,915
Non-current assets, total	150,900	252,231	142,218	184,905	241,775	370,469	189,392
Property, plant & equipment	73,655	167,347	39,230	103,872	160,167	288,861	107,784
Goodwill & other intangibles	63,926	63,105	67,400	66,825	67,400	67,400	67,400
Long-term investments / ass. companies	0	0	0	0	0	0	0
Other assets	13,319	21,779	35,588	14,208	14,208	14,208	14,208
Total assets	416,835	488,264	431,994	493,285	456,105	570,795	534,832
Shareholders' equity & debt							
Current liabilities, total	95,034	84,858	73,922	179,150	91,172	123,782	91,631
Short-term debt	34,940	35,857	2,163	107,109	30,000	60,000	20,000
Accounts payable	21,476	16,852	15,692	25,295	14,426	17,036	17,995
Current provisions	3,908	6,291	3,968	4,858	4,858	4,858	4,858
Other current liabilities	34,710	25,858	52,099	41,888	41,888	41,888	48,778
Long-term liabilities, total	161,606	237,478	128,685	78,915	129,410	209,410	139,410
Long-term debt	141,207	215,975	115,860	72,751	122,751	202,751	132,751
Deferred revenue	0	0	0	0	0	0	0
Other liabilities	20,399	21,503	12,825	6,163	6,658	6,658	6,658
Minority interests	33	-3,102	-5,393	-7,679	-8,879	-9,679	-10,479
Shareholders' equity	160,162	169,030	234,781	242,899	244,402	247,281	314,269
Share capital	71,975	76,555	76,556	76,556	76,556	76,556	76,556
Capital reserve	77,803	82,287	82,288	82,288	82,288	82,288	82,288
Other reserves	-296	-724	-997	-908	-908	-908	-908
Treasury stock	0	0	0	0	0	0	0
Retained earnings	10,680	10,912	76,934	84,962	86,465	89,345	156,333
Total consolidated equity and debt	416,835	488,264	431,994	493,285	456,105	570,795	534,832
Ratios							
Current ratio (x)	2.80	2.78	3.92	1.72	2.35	1.62	3.77
Quick ratio (x)	1.19	1.35	2.39	1.24	1.56	0.93	2.93
Net cash	-103,972	-165,757	29,663	14,124	-43,987	-187,657	70,615
Net gearing	64.9%	98.1%	-12.6%	-5.8%	18.0%	75.9%	-22.5%
Book value per share (€)	2.60	2.16	2.92	2.99	2.99	3.02	3.86
Tangible book value per share (€)	1.62	1.37	2.11	2.18	2.19	2.21	3.05
Equity ratio (incl. minorities)	38.4%	34.0%	53.1%	47.7%	51.6%	41.6%	56.8%
Return on equity (ROE)	-8.1%	2.1%	29.4%	7.0%	1.9%	2.4%	24.5%
Return on assets (ROA)	0.5%	4.1%	20.0%	5.6%	3.2%	3.0%	16.5%
Return on investment (ROI)	-3.1%	0.7%	16.0%	3.5%	1.0%	1.0%	14.4%
Return on capital employed (ROCE)	0.9%	3.1%	34.3%	10.5%	4.9%	4.4%	31.1%
Days sales outstanding (DSO)	34.7	26.6	19.4	16.4	35.0	35.0	30.0
Days inventory outstanding (DIO)	326.2	285.5	425.2	290.8	600.0	300.0	300.0
Days payables outstanding (DPO)	46.0	39.7	59.1	85.2	120.0	60.0	70.0



CASH FLOW STATEMENT

All figures in EUR '000	2014A	2015A	2016A	2017A	2018E	2019E	2020E
EBIT	2,681	9,765	97,040	23,129	12,635	15,759	104,321
Depreciation and amortisation	8,554	9,898	12,884	5,466	9,445	14,255	20,220
EBITDA	11,235	19,663	109,924	28,595	22,080	30,014	124,542
Changes in working capital	-28,886	-74,556	58,583	12,292	-2,039	-17,055	4,117
Other adjustments	-11,845	-47,582	-104,081	-18,257	-9,269	-10,617	-28,181
Operating cash flow	-29,496	-102,475	64,426	22,630	10,772	2,341	100,477
Investments in PP&E	-4,829	-2,903	-108,699	-70,015	-65,820	-142,949	160,857
Investments in intangibles	0	0	0	0	0	0	0
Free cash flow	-34,325	-105,378	-44,273	-47,385	-55,048	-140,607	261,334
Acquisitions & disposals, net	-81	23,258	106,876	51,300	0	0	0
Other investments	0	-255	-418	-7,535	0	0	0
Cash flow from investing	-4,910	20,100	-2,241	-26,250	-65,820	-142,949	160,857
Debt financing, net	11,137	97,715	23,171	59,106	-27,109	110,000	-110,000
Equity financing, net	33,435	9,454	0	0	0	0	0
Dividends paid	-8,229	-3,062	-3,062	-9,187	-3,062	-3,062	-3,062
Other financing	-2,302	-2,221	0	0	0	0	0
Cash flow from financing	34,041	101,886	20,109	49,919	-30,171	106,938	-113,062
Forex and other changes in cash	-4,862	-5,611	-20,684	-1	0	0	0
Net cash flows	-5,227	13,900	61,609	46,298	-85,220	-33,670	148,272
Cash, start of the year	77,402	72,175	86,076	147,686	193,984	108,764	75,095
Cash, end of the year	72,175	86,075	147,686	193,984	108,764	75,095	223,367
EBITDA/share (in €)	0.18	0.26	1.40	0.36	0.28	0.38	1.58
Operating cashflow/share (in €)	-0.48	-1.33	0.82	0.29	0.14	0.03	1.28
Y-Y Growth							
Operating cash flow	n.m.	n.m.	n.m.	-64.9%	-52.4%	-78.3%	4191.2%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	-81.2%	40.4%	447.5%	-74.0%	-22.8%	35.9%	314.9%

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...91	↓	↓	↓	↓
92	12 April 2018	€2.48	Buy	€3.80
93	14 May 2018	€2.49	Buy	€3.80
94	10 August 2018	€2.50	Buy	€3.80
95	Today	€2.50	Buy	€3.60

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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.

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