

Energiekontor AG

Germany / Cleantech
 Frankfurt Stock Exchange
 Bloomberg: EKT GR
 ISIN: DE0005313506

2015 figures

RATING	ADD
PRICE TARGET	€17.90
Return Potential	15.5%
Risk Rating	High

RECORD 2015 RESULTS

On 11 April, Energiekontor published 2015 figures which were above our forecasts and previous year's figures. The project development business was particularly strong as the company succeeded in commissioning high margin wind farm projects. Management proposes to raise the dividend by a third to €0.80. For 2016, Energiekontor is guiding towards a result at least as high as in 2015. Given the pending regulatory changes in Germany and the current lack of CfD tenders for onshore wind in the UK we believe that the guidance shows how well prepared Energiekontor already is to tackle the increasingly challenging regulatory environment. We reduce our estimates for 2016E and 2017E due to the regulatory uncertainty in Energiekontor's key markets. Our updated sum of the parts valuation yields a new price target of €17.90 (previously: €15.90). Following the recent share price increase we downgrade the stock from Buy to Add.

Record 2015 results Total output amounted to €210.1m (FBe: €217.7m, 2014: €160.5m, +31.0% y/y). EBIT increased 22% to €49.7m (FBe: €43.5m, 2014: €40.7m, +22% y/y). The net result climbed even more strongly to €20.9m from €14.1m (FBe: €17.4m). Despite the significant increase in total output management kept costs well under control. Personnel costs were only 5% higher y/y (€10.5m vs. €10.0m) and other operating expenses rose 11.4% (€18.6m vs. €16.6m). The strong 2015 performance was mainly attributable to the project development segment which increased total output by 39.3% to €151.8m and EBIT by 46.3% to €21.3m. The group's net result soared 48% to €20.9m. EPS were €1.43 vs. €0.96 in the previous year.

Strongly increasing dividend Based on the very good 2015 results management proposed a 33% increase in the dividend to €0.80 (previous year: €0.60). The stock thus offers a very attractive dividend yield of 5.2%.

Guidance for 2016 suggests another strong year Management is guiding towards a result at or slightly above the 2015 level. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2013	2014	2015	2016E	2017E	2018E
Total output (€m)	162.77	160.45	210.14	204.66	203.74	208.45
Y-o-y growth	168.8%	-1.4%	31.0%	-2.6%	-0.5%	2.3%
EBIT (€m)	34.14	40.72	49.67	50.99	50.45	51.67
EBIT margin	21.0%	25.4%	23.6%	24.9%	24.8%	24.8%
Net income (€m)	13.55	14.13	20.91	21.63	20.82	21.77
EPS (diluted) (€)	0.92	0.96	1.43	1.48	1.42	1.49
DPS (€)	0.50	0.60	0.80	0.70	0.70	0.70
FCF (€m)	-29.17	35.62	51.22	-23.15	6.78	-4.12
Net gearing	498.7%	464.9%	330.0%	325.6%	282.8%	261.1%
Liquid assets (€m)	71.41	81.59	103.96	90.76	82.85	86.83

RISKS

Main risks include changes in the regulatory support for wind energy, project development risks, wind farm operation risks, and low stock liquidity.

COMPANY PROFILE

Energiekontor is a wind and solar project developer and an operator of a large own wind farm portfolio (~265 MW). The company is active in onshore wind and solar project development mainly in Germany and the UK. Energiekontor is headquartered in Bremen, Germany.

MARKET DATA

As of 25 Apr 2016

Closing Price	€ 15.50
Shares outstanding	14.61m
Market Capitalisation	€ 226.49m
52-week Range	€ 10.80 / 15.50
Avg. Volume (12 Months)	6,764

Multiples	2015	2016E	2017E
P/E	10.0	9.7	10.1
EV/Sales	1.7	1.8	1.8
EV/EBIT	7.3	7.1	7.2
Div. Yield	5.2%	4.5%	4.5%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2015

Liquid Assets	€ 103.96m
Current Assets	€ 166.86m
Intangible Assets	€ 0.02m
Total Assets	€ 399.12m
Current Liabilities	€ 76.16m
Shareholders' Equity	€ 50.46m

SHAREHOLDERS

Dr Bodo Wilkens	35.6%
Günter Lammers	35.6%
Free Float	28.8%

All segments contributed to growing EBIT Group EBIT growth of 22% to €49.7m was – as already mentioned – mainly driven by strong EBIT in the *Project Development segment* (+46.3% y/y to €21.3m). Segment EBIT margin rose to 14.0% from 13.4% in the previous year and was significantly above FB's forecast of 9% as the company managed to commission high margin wind farm projects (see figure 1).

Power Production segment total output increased 22% to €55.4m. This increase was driven by Germany (€26.0m vs. €20.2m, +29% y/y) and the UK (€21.4m vs. €17.0m, +26% y/y), whereas sales from power production in Portugal declined slightly to €7.8m from €8.0m (-3%). EBIT rose 15.5% to €25.7m from €22.3m. The main reason for this increase was the expansion of its own wind farm portfolio from 221 MW to 265 MW in 2015. Energiekontor bought two wind farms (Altlüdersdorf, 13.5 MW, and Thüle, 14.0 MW) and transferred the British Gayton le Marsh wind farm (16.4 MW) from project development to its Power Production segment. At the beginning of 2016, another Portuguese wind farm (Mafomedes, 4.2 MW) was purchased. This increases the portfolio to 269 MW. In the medium term, Energiekontor plans to increase Power Production segment EBITDA from €42m to €70-80m which roughly corresponds to a portfolio expansion from the current 269 MW to ca. 500 MW. The expansion is to be executed by taking over self-developed wind farms, purchasing operating wind farms and solar parks, repowering of own wind farms, and by optimisation and efficiency increases.

The *Operation & Innovation segment* benefits from the increasing number of wind farms for which Energiekontor has taken over the operational management for third parties. The company usually operates the wind farms after their sale. Segment total output increased 12% from €4.7m to €5.3m and segment EBIT amounted to €2.7m vs. €2.5m in the previous year (+7%).

Figure 1: Segment figures versus forecasts and previous year's figures

	2015A	2015E	Delta	2014	Delta
Projects Onshore					
Total output	151.77	159.10	-4.6%	108.93	39.3%
EBIT	21.29	14.32	48.7%	14.56	46.3%
margin	14.0%	9.0%		13.4%	
Projects Offshore					
Total output	0.00	0.00	-	3.42	-100.0%
EBIT	0.00	0.00	-	1.41	-100.0%
margin	-	-		41.3%	
Power Production					
Total output	55.38	55.82	-0.8%	45.38	22.0%
EBIT	25.72	26.88	-4.3%	22.27	15.5%
margin	46.4%	48.2%		49.1%	
Operation & Innovation					
Total output	5.27	5.19	1.5%	4.72	11.7%
EBIT	2.66	2.33	14.1%	2.48	7.3%
margin	50.4%	44.9%		52.5%	
Consolidation					
Total output	-2.28	-2.38	-	-2.00	-
EBIT	0.00	0.00	-	0.00	-
margin	-	-		-	
Group					
Total output	210.14	217.73	-3.5%	160.45	31.0%
EBIT	49.67	43.53	14.1%	40.72	22.0%
margin	23.6%	20.0%		25.4%	

Source: First Berlin Equity Research, Energiekontor AG



Balance sheet strengthened Energiekontor's cash position climbed 27% y/y to €104.0m. Furthermore, €10.3m are invested in securities (German government bonds). We view this item as a cash equivalent. Working capital was significantly lower. Inventories declined 35% to €32.9m, receivables 29% to €16.9m, and payables 24% to €4.5m. Working capital thus totalled €45.3m vs. €68.8m at the end of 2014; a drop of €23.5m or 34%. The most important balance sheet item on the asset side by far is "Technical equipment (wind farms)" which amounted to €222.7m or 56% of the balance sheet total. This item reflects the strong and increasing (+20% y/y) base of operating wind farm assets.

Long-term financial debt remained largely stable y/y at €248.9m versus €249.1m at 31/12/2014. Short-term financial debt increased y/y to €31.9m from €19.2m. In total, financial debt (excluding other financial liabilities, which reflect negative market values of interest and currency swaps) increased to €267.3m vs. €257.3m at the end of 2014. The net debt position declined to €153.1m from €175.7m. Based on our adjusted financial debt and cash & cash equivalent figures, net gearing fell from 437% to 303%.

Equity rose by €10.3m or 25% to €50.5m. The equity share increased to 12.7% from 11.3%. The balance sheet contains hidden reserves due to the transfer of wind farms from project development to the Power Production segment, as these wind farms are transferred at manufacturing costs without any profit margin. This reduces the equity share as the profit margin is eliminated due to the consolidation and does thus not enter the income statement. Operation of the wind farms uncovers the hidden reserves as depreciation is lower due to the smaller assessment base.

Impressive operating cash flow Based on EBITDA of €66.1m and low working capital requirements operating cash flow amounted to €91.4m. Cash flow from investing of €-51.0m was dominated by CAPEX of €40.2m and the purchase of securities (Bundesobligationen) for €10.2m. Free cash flow amounted to €51.2m. Cash flow from financing of €-16.0m was mainly influenced by a cash inflow of €19.3m from additional step-up bonds, and cash outflows from a net reduction of loans of €5.2m, and interest and dividend payments of €18.3m and €8.8m respectively.

Future growth contributions from new markets and focus regions To diversify its regional focus (currently Germany, UK, and Portugal), Energiekontor is exploring new markets such as the Netherlands (wind), France (wind & solar) and the US (wind & solar). If the thorough analysis of these markets produces positive results, Energiekontor will enter them by building up its own branches and personnel.

Furthermore, the company plans to expand the number of its focus regions at home and abroad. Current focus regions in Germany are Lower Saxony, North Rhine-Westphalia, Brandenburg, and Mecklenburg-Western Pomerania. This may be done through co-operations such as the one with Thüga Erneuerbare Energien in North Rhine-Westphalia.

Besides, Energiekontor wants to expand its solar project business both at home and abroad. In 2015, Energiekontor's solar project Nadrensee (9 MW) was among the winners of the first German PV tender round and received approval in January 2016. We expect commissioning in the summer. The company plans to participate in the 2016 solar tender rounds with new solar projects.

Sustainable growth strategy The basis for future growth is the financial stability of the company which is secured by stable and recurring cash flows from power production at its own wind farms. This segment contributed EBITDA of €42.1m or 63.7% of the group's EBITDA of €66.1m. Even at the EBT level, the segment contributed €10.9m or 36.7% to the group's EBT of €29.7m. Energiekontor is continuing the expansion of this segment to give its other activities such as project development, rotor blade enlargement, and penetration of new markets a solid basis.

Regulatory headwinds in Germany... The German Federal Government aims to expand the amount of electricity produced from renewable energies from the current level of ca. 32% of the total to 40-45% by 2025 and 55-60% by 2035. The first draft of the new Renewable Energy Law (EEG) suggests a maximum annual tender volume of 2,500 MW net for onshore wind, but also envisages lower tender volumes if overall government targets look set to be reached. Compared to previous years, this would result in a much smaller German market. In 2014, newly installed onshore capacity amounted to 4,750 MW (net: 4,386 MW), and in 2015 the volume was 3,731 MW (net: 3,536 MW).

To give locations with lower wind speed a fair chance in the tender process, the new EEG draft proposes a single-tier reference yield model with a single tender-based feed-in tariff for 20 years. As a consequence, locations with high wind speeds lose much of their previous advantage compared to locations with low wind speed. This is bad news for wind-rich Länder such as Schleswig-Holstein and Lower Saxony, and good news for Länder with lower wind speed such as Bavaria and Baden-Württemberg. As Energiekontor's project portfolio is diversified among regions with both lower and higher wind speed, the company will partly benefit and partly be burdened.

The tender process looks set to generate a competitive pricing mechanism which we expect to be below the current feed-in tariff level. Although experience with the four solar tender rounds in 2015 cannot be directly transferred to wind, they give an indication. The mean solar tender price declined from 9.2 €/Ct/kWh via 8.5 and 8.0 to 7.4 €/Ct/kWh. This corresponds to a 20% drop during 2015.

We expect a strong 2016 due to pull-forward effects before the new regulation becomes effective from 2017 on. Due to a grace period, projects receiving administrative approval ("BImSch-Genehmigung") until end 2016 can be constructed in 2017 and will still receive the 2016 feed-in tariffs. We believe that onshore wind installations in 2017 will be largely based on grace period projects as we expect the first onshore wind tender not earlier than May 2017 with results being presented in June. Companies will then have only ca. 6 months to organise the supply of turbines and construct the wind farms. In many cases, this may not be sufficient to commission the wind farms before year-end.

At the Berlin Energy Transition Dialogue in March, State Secretary Rainer Baake, who manages the German "Energiewende", made very clear that he wants to have firm control over the future expansion path of onshore wind. We therefore believe that the German support system will be transformed from a system with uncapped installation volumes and feed-in tariffs to a system with a cap and competitive pricing via tenders. This will have an adverse effect on annual installation volumes and sector margins.

...and in the UK In the UK, the grace period for the old renewable obligation certificates (ROC) system ended at the end of March. For the time being, there will be no substantial financial support scheme in place and the British Government has repeatedly stated its sceptical view regarding further financial support for onshore wind. The British Government has not yet announced any plans for future contract-for-difference (CfD) tenders for onshore wind, but current parliamentary discussions may result in new CfD tender rounds in 2017. Despite the current lack of regulatory support, Energiekontor remains optimistic regarding its UK project pipeline as the company focuses on projects which are located in areas with strong wind (mostly Scotland, but also Wales) which can be profitably operated by selling power to large consumers via purchasing power agreements (PPA).

Estimates adjusted for increasingly challenging regulatory environment We lower our 2016E and 2017E forecasts to reflect the current lack of financial support for onshore wind in the UK and the anticipated market and margin contraction in 2017E in Germany (see figure 3 overleaf). Given Energiekontor's strong project pipeline and increasing cash flows from own plant operation, we believe that the company will generate annual EBITs above €50m in coming years despite the regulatory headwinds.



Downgrade to Add at higher price target An updated sum-of-the-parts valuation yields a new price target of €17.90 (previously: €15.90). The lower net debt position more than compensates for the effect of the lowered forecasts. Following the recent increase in the share price we downgrade the stock from Buy to Add.

Figure 2: Group figures versus forecasts

	2015A	2015E	Delta	2014	Delta
Total output	210.14	217.73	-3.5%	160.45	31.0%
EBIT	49.67	43.53	14.1%	40.72	22.0%
<i>margin</i>	23.6%	20.0%		25.4%	
Net income	20.91	17.41	20.1%	14.13	48.0%
<i>margin</i>	10.0%	8.0%		8.8%	
EPS in € (diluted)	1.43	1.19	20.2%	0.96	49.0%

Source: First Berlin Equity Research, Energiekontor AG

Figure 3: Revisions to forecasts

All figures in €m	2016E			2017E			2018E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Total output	277.30	204.66	-26.2%	293.69	203.74	-30.6%	309.80	208.45	-32.7%
EBIT	56.51	50.99	-9.8%	63.86	50.45	-21.0%	66.79	51.67	-22.6%
<i>margin</i>	20.4%	24.9%		21.7%	24.8%		21.6%	24.8%	
Net income	25.71	21.63	-15.9%	28.15	20.82	-26.0%	28.87	21.77	-24.6%
<i>margin</i>	9.3%	10.6%		9.6%	10.2%		9.3%	10.4%	
EPS (diluted)	1.75	1.48	-15.8%	1.92	1.42	-25.9%	1.97	1.49	-24.5%

Source: First Berlin Equity Research

**SUM OF THE PARTS VALUATION**

SotP valuation	Fair value in €m	Fair value per share in €
Project development (including O&I)	127.07	8.70
Power production	135.21	9.20
Sum of the parts	262.28	17.90



INCOME STATEMENT

All figures in EUR *000	2013A	2014A	2015A	2016E	2017E	2018E
Revenues	117,803	153,280	191,329	161,820	150,491	141,953
Change in inventory & own work	44,970	7,172	18,808	42,840	53,244	66,493
Total output	162,773	160,452	210,137	204,660	203,735	208,446
Cost of goods sold	96,158	82,431	116,590	111,200	107,712	107,355
Gross profit	66,615	78,021	93,547	93,459	96,023	101,091
Personnel costs	9,754	10,043	10,476	11,105	11,771	12,713
Depreciation	12,081	14,183	16,424	16,727	18,235	19,165
Other operating income	3,762	3,569	1,574	5,116	5,093	5,211
Other operating expenses	14,401	16,646	18,553	19,750	20,659	22,757
Operating income (EBIT)	34,140	40,718	49,668	50,995	50,452	51,668
Net financial result	-12,987	-18,962	-20,006	-20,088	-20,713	-20,574
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	21,153	21,756	29,662	30,906	29,739	31,093
Income taxes	7,603	7,623	8,751	9,272	8,922	9,328
Minority interests	0	0	0	0	0	0
Net income / loss	13,550	14,133	20,911	21,635	20,817	21,765
Diluted EPS (in €)	0.92	0.96	1.43	1.48	1.42	1.49
EBITDA	46,221	54,901	66,092	67,722	68,687	70,833
Ratios						
Gross margin on total output	40.9%	48.6%	44.5%	45.7%	47.1%	48.5%
EBIT margin on total output	21.0%	25.4%	23.6%	24.9%	24.8%	24.8%
EBITDA margin on total output	28.4%	34.2%	31.5%	33.1%	33.7%	34.0%
Net margin on total output	8.3%	8.8%	10.0%	10.6%	10.2%	10.4%
Tax rate	35.9%	35.0%	29.5%	30.0%	30.0%	30.0%
Expenses as % of total output						
Personnel costs	6.0%	6.3%	5.0%	5.4%	5.8%	6.1%
Depreciation	7.4%	8.8%	7.8%	8.2%	9.0%	9.2%
Other operating expenses	8.8%	10.4%	8.8%	9.6%	10.1%	10.9%
Y-Y Growth						
Total output	68.8%	-1.4%	31.0%	-2.6%	-0.5%	2.3%
EBIT	289.6%	19.3%	22.0%	2.7%	-1.1%	2.4%
Net income/ loss	32008.5%	4.3%	48.0%	3.5%	-3.8%	4.6%



BALANCE SHEET

All figures in EUR '000	2013A	2014A	2015A	2016E	2017E	2018E
Assets						
Current assets, total	164,392	159,888	166,855	194,570	193,250	197,354
Cash and cash equivalents	71,413	81,594	103,957	90,758	82,851	86,834
Short-term investments	1,371	39	10,278	10,278	10,278	10,278
Receivables	28,567	23,781	16,932	27,376	29,447	30,627
Inventories	62,033	50,858	32,871	63,342	67,859	66,799
Other current assets	829	3,412	1,192	1,192	1,192	1,192
Non-current assets, total	186,587	195,310	232,263	239,896	247,941	273,719
Property, plant & equipment	178,804	187,241	223,789	231,422	239,467	265,244
Goodwill & other intangibles	57	37	23	23	23	23
Other assets	7,726	8,032	8,451	8,451	8,451	8,451
Total assets	350,980	355,198	399,118	434,466	441,191	471,073
Shareholders' equity & debt						
Current liabilities, total	79,462	45,266	76,163	96,596	87,195	87,206
Short-term financial debt	54,076	19,166	31,871	50,000	40,000	40,000
Accounts payable	8,109	5,947	4,480	8,247	8,846	8,857
Current provisions	6,653	11,342	16,282	16,282	16,282	16,282
Other current liabilities	10,624	8,811	23,530	22,067	22,067	22,067
Long-term liabilities, total	231,920	269,777	272,495	276,019	281,571	299,919
Long-term financial debt	216,173	249,136	248,899	252,423	257,975	276,323
Deferred revenue	0	0	0	0	0	0
Other liabilities	15,747	20,641	23,596	23,596	23,596	23,596
Minority interests	0	0	0	0	0	0
Shareholders' equity	39,598	40,155	50,460	61,852	72,426	83,948
Share capital	14,778	14,653	14,653	14,653	14,653	14,653
Capital reserve	40,278	40,293	40,308	40,308	40,308	40,308
Other reserves	-1,319	-7,388	-8,751	-8,751	-8,751	-8,751
Treasury stock	-102	-4	-41	-41	-41	-41
Loss carryforward / retained earnings	6,122	10,112	16,421	27,813	38,387	49,909
Total consolidated equity and debt	350,980	355,198	399,118	434,466	441,191	471,073
Ratios						
Current ratio (x)	2.07	3.53	2.19	2.01	2.22	2.26
Quick ratio (x)	1.29	2.41	1.76	1.36	1.44	1.50
Net debt	197,465	186,669	166,535	201,387	204,846	219,211
Net gearing	499%	465%	330%	326%	283%	261%
Book value per share (in €)	2.69	2.74	3.45	4.23	4.95	5.74
Financial debt/EBITDA (x)	6	5	4	4	4	4
Return on equity (ROE)	34.2%	35.2%	41.4%	35.0%	28.7%	25.9%
Days sales outstanding (DSO)	88.5	56.6	32.3	61.7	71.4	78.7
Days inventory outstanding (DIO)	235.5	225.2	102.9	207.9	230.0	227.1
Days payables outstanding (DPO)	30.8	26.3	14.0	27.1	30.0	30.1



CASH FLOW STATEMENT

All figures in EUR '000	2012A	2013A	2014A	2015A	2016E	2017E	2018E
EBIT	8,763	34,140	40,718	49,668	50,995	50,452	51,668
Depreciation and amortisation	8,064	12,081	12,463	16,424	16,727	18,235	19,165
EBITDA	16,827	46,221	53,181	66,092	67,722	68,687	70,833
Changes in working capital	-10,732	-24,798	6,445	28,824	-37,148	-5,988	-110
Other adjustments	714	-3,128	-3,848	-3,490	-29,360	-29,635	-29,902
Operating cash flow	6,809	18,295	55,778	91,426	1,214	33,064	40,821
CAPEX	-59,808	-47,420	-20,149	-40,205	-24,360	-26,280	-44,942
Investments in intangibles	-1	-41	-12	0	0	0	0
Free cash flow	-53,000	-29,166	35,617	51,221	-23,146	6,784	-4,122
Acquisitions and disposals, net	0	10,131	5,062	300	0	0	0
Other investments	14,423	-2,816	307	-11,143	0	0	0
Cash flow from investing	-45,386	-40,146	-14,792	-51,048	-24,360	-26,280	-44,942
Debt financing, net	52,215	52,410	-3,708	11,574	21,653	-4,448	18,348
Equity financing, net	0	0	0	0	0	0	0
Dividends paid	-4,418	-2,206	-7,331	-8,781	-11,706	-10,243	-10,243
Other financing	-8,090	-10,394	-18,129	-18,759	0	0	0
Cash flow from financing	39,707	39,810	-29,168	-15,967	9,947	-14,691	8,105
Forex & other effects	0	0	-1,636	-2,048	0	0	0
Net cash flows	1,130	17,959	10,181	22,363	-13,199	-7,907	3,983
Cash, start of the year	52,323	53,453	71,413	81,594	103,957	90,758	82,851
Cash, end of the year	53,453	71,412	81,594	103,957	90,758	82,851	86,834
EBITDA/share (in €)	1.14	3.14	3.74	4.52	4.63	4.69	4.84
Operating cash flow/share (in €)	0.46	1.24	3.80	6.25	0.08	2.26	2.79
Y-Y Growth							
Operating cash flow	n.a.	168.7%	204.9%	63.9%	-98.7%	2623.4%	23.5%
Free cash flow	n.a.	n.m.	n.m.	43.8%	n.m.	n.m.	n.m.
EBITDA/share	n.a.	175.2%	19.1%	20.6%	2.5%	1.4%	3.1%
Operating cash flow/share	n.a.	169.2%	205.7%	64.2%	-98.7%	2623.4%	23.5%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	5 June 2014	€7.70	Buy	€12.20
2...11	↓	↓	↓	↓
12	9 September 2015	€12.23	Buy	€15.90
13	19 November 2015	€11.28	Buy	€15.90
14	20 January 2016	€11.96	Buy	€15.90
15	Today	€15.50	Add	€17.90

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