

2G Energy AG

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

H1 figures

RATING
BUY

PRICE TARGET
€25.50

Return Potential 45.7%
 Risk Rating Medium

H1 FIGURES GOOD BASIS FOR REACHING UPPER END OF GUIDANCE

On 27 September, 2G reported H1 figures and held a conference call. Sales grew 8% and were above our estimate. EBIT improved to €-2.4m from €-3.9m in H1/15. The order backlog increased 40% to €106.4m. Given the high total output of €85.5m, we see 2G as well on track to reach our full year forecast. Management reiterated its expectation of reaching the upper end of the guidance (sales: €150-170m, EBIT margin 3-5%). We reiterate our Buy rating at a slightly increased price target of €25.50 (previously: €25.00).

Strong sales & improved EBIT H1 sales rose 8% to €63.8m (FBe: €61.0m) due mainly to higher service revenues (€27.6m vs. €22.9m in H1/15). Inventory build-up of €21.2m resulted in high total output of €85.5m (H1/15: €62.5m, +37%, FBe: €83.2m). EBIT improved to €-2.4m (FBe: €-0.8m) from €-3.9m in the previous year. The main driver was a higher gross profit (€22.2m vs. €18.0m in H1/15). The net result amounted to €-2.8m (H1/15: €4.2m).

Guidance reiterated Management expects to reach the upper end of its 2016 guidance (sales €150-170m, EBIT margin 3-5%). Given the higher H1 revenues, the high inventory which will mainly be converted into sales in H2, and the very high order backlog of €106.4m, we remain confident that 2G will reach our full year forecast.

Order backlog benefits from strong German biogas market The very high order backlog (€106.4m vs. €76.2 in H1/15, +40%) stems from strong demand in the German biogas market. German biogas orders increased to €29.2m from €10.6m in H1/15. Accordingly, the biogas share increased from 42% to 58%. The foreign order backlog share was 41% (H1/15: 46%).

Solid balance sheet Despite the increase in inventory from €32.2m at the end of 2015 to €42.0m, working capital remained below the year-end level (€27.9m vs. €36.7m) as prepayments increased to €26.2m from €148m and payables to €9.7m from €5.4m. Strict working capital management was the... (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2013	2014	2015	2016E	2017E	2018E
Revenue (€m)	126.13	186.61	152.88	174.10	187.00	200.09
Y-o-y growth	-13.9%	47.9%	-18.1%	13.9%	7.4%	7.0%
EBIT (€m)	3.12	11.29	4.77	8.32	13.81	15.01
EBIT margin	2.5%	6.0%	3.1%	4.8%	7.4%	7.5%
Net income (€m)	0.89	6.50	2.78	5.58	9.38	10.14
EPS (diluted) (€)	0.20	1.47	0.63	1.26	2.12	2.29
DPS (€)	0.00	0.00	0.37	0.37	0.37	0.37
FCF (€m)	0.70	4.42	-1.26	7.98	1.92	4.74
Net gearing	-6.9%	-11.0%	-8.0%	-18.7%	-16.9%	-19.2%
Liquid assets (€m)	5.18	25.92	14.42	10.48	11.89	10.15

RISKS

The main risks include regulatory changes, internationalisation, increasing competition, high natural gas and low electricity prices, and low share liquidity.

COMPANY PROFILE

2G Energy AG is a leading producer of combined heat and power plants (CHP). The company offers a wide product range of plants with a capacity from 20 kW to 4 MW and addresses both the biogas and the natural gas market. 2G is headquartered in Heek, Germany, and has an additional production site in the US.

MARKET DATA

As of 28 Sep 2016

Closing Price	€ 17.50
Shares outstanding	4.43m
Market Capitalisation	€ 77.53m
52-week Range	€ 16.50 / 22.35
Avg. Volume (12 Months)	4,048

Multiples	2015	2016E	2017E
P/E	27.8	13.9	8.3
EV/Sales	0.5	0.4	0.4
EV/EBIT	15.5	8.1	4.9
Div. Yield	2.1%	2.1%	2.1%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2016

Liquid Assets	€ 14.84m
Current Assets	€ 84.49m
Intangible Assets	€ 5.51m
Total Assets	€ 107.40m
Current Liabilities	€ 43.05m
Shareholders' Equity	€ 49.79m

SHAREHOLDERS

Christian Grotholt	30.0%
Ludger Gausling	25.3%
Free Float	44.7%



...driver of the increased cash position (€14.8m vs. €10.1m at 31/12/2015). Due mainly to the H1 loss of €2.8m, equity fell to €49.8m from €52.6m at 31/12/2015. The equity ratio declined to 46% from 55% at the beginning of the year. As financial debt remained at a low level (€5.7m), the net cash position improved to €91m. Management expects a further increase in the net cash position during H2.

Positive free cash flow already in H1 Operating cash flow was €6.3m – a result of the strict working capital management. Due to CAPEX of €1.5m free cash flow amounted to €4.8m. Cash flow from investment activity was €-1.3m. Cash flow from financing activity was negative at €-0.4m as debt repayment and interest payments were higher than new debt.

Gaining market share in Germany The German CHP market is a mature market with increasing competition and consolidation on the supply side. This summer, Schnell Motoren AG – in 2014 among the top 6 players in Germany with a very strong position in the biogas market – applied for insolvency. In 2015, the natural gas CHP market shrank to 755 MW from 1.713 MW in the previous year. In this environment, 2G increased its 2015 market share in its core 50-500 kW range to 27.8% from 24.8% in 2014. Even in the wider 20-2,000 kW range, 2G's market share rose to 20.6% from 17.0%. We conclude that 2G is among the winners of the consolidation phase. Early expansion into natural gas CHP, early digitalisation of its products, and early introduction of new grid standards have proven to be the right moves in recent years. Outstanding R&D and technologically leading products are the basis for further market share gains in an increasingly competitive environment.

In H1/16, revenues in Germany increased 15% y/y to €51.1m. The German order backlog at the end of H1 increased 50% y/y to €62.4m from €415m in H1/15. The main driver is the biogas market with an order increase to €29.2m from €10.6m in H1/15. Many biogas plant operators are currently repowering their biogas plants and making power production more flexible to increase revenues, thus driving higher demand for biogas CHPs.

International CHP market remains a growth market in coming years Stagnating power prices for private and industrial consumers on the one hand, and falling natural gas prices on the other, mean that the overall price environment has improved for CHP. The spark spread (the ratio between power price and gas price) in most of 2G's markets is above 2.5 and thus indicates that profitable operation of CHP plants is generally possible. We believe that 2G as an international player will benefit from this environment.

In H1/16, foreign sales amounted to €12.7m or 20% of total sales. Although H1 foreign sales are below the previous year's figure (€14.7m), the foreign order backlog of €44.0m (H1/15: €34.7m) indicates a growing foreign business for H2 and the full year. The strongest foreign markets are the UK (H1 revenues: €2.7m, order backlog: €18.2m) and the US (H1 revenues €6.7m, order backlog: €12.0m). In the UK, the reference project with British Sugar (5 MW el & 5 MW thermal), where 2G used an innovative modular container design for its avus plants, triggered similar further orders. Brexit has not harmed 2G as demand remains strong and the company has no currency risk because it bills in Euros. The restructuring of the US business is almost complete and a new sales partnership with Penn Power looks set to generate additional sales. Penn Power sells various makes of gas-based energy generation plants in the northeastern and western states. Penn Power's product line lacked smaller CHP plants (ca. 200-300 kW), and so 2G's strength in this area was a natural fit.

CHP Plants segment only temporarily weaker CHP plant sales amounted to €29.8m (H1/15: €32.6m, -9%). Whereas revenues from natural gas CHPs increased to €16.6m from €14.8m in H1/15, the biogas segment's revenues declined to €13.2m from €17.8m in H1/15. Given the very high CHP plant order backlog we expect 2016 segment sales to exceed previous year's sales (FBe segment revenue 2016: €99.2m vs. €92.3m in 2015).



Service Segment continues to grow The Service segment continued on its growth path. Revenues increased almost 21% to €27.6m from €22.9m in H1/15. The Service segment revenue share increased 4PP y/y to 43%. The segment has reached break-even and management plans to push the segment margin above the margin of the CHP plant segment.

New Partner Concept to increase international market share 2G has 175 partners in 31 countries. The new Partner Concept puts partnerships at the centre of 2G's international distribution activities. A clear categorisation of the partners should help both the partners and 2G to benefit from the partnership. Partners that exclusively market 2G products in foreign markets receive support regarding staff education and sales. Digital interfaces and solutions such as CRM systems as well as the partner portal my.2-g.com are used to exchange relevant information between partners and 2G quickly and at low cost. The partner concept will play an important role in reaching 2G's target of up to €300m revenues by 2020.

German CHP law will again be amended to comply with EU regulation Before it comes into effect, the German CHP law of 1 Jan 2016 requires formal notification from the EU that it complies with EU state aid rules. The German government and the EU have agreed on changes, and this notification is now imminent and will significantly reduce uncertainty regarding the regulatory environment for natural gas CHPs. The most important amendment will be the establishment of a tender process for larger CHP plants. From winter 2017/18 on, CHP plants with a capacity between 1 and 50 MW have to take part in tenders. The new CHP law looks set to become effective from 1 January 2017 on. As 95% of 2G's business comprises plant capacities below 1 MW, we do not expect the amendment to exert relevant effects on 2G.

Buy reiterated at slightly increased price target Based on an increased free cash flow forecast for 2016E, an updated DCF model yields a new price target of €25.50 (previously: €25.00). We reiterate our Buy rating.

Figure 1: Reported figures vs. forecasts

All figures in €m	H1/16A	H1/16E	delta	H1/15	delta
Sales	63.76	61.00	4.5%	59.00	8.1%
EBIT	-2.40	-0.84	n.a.	-3.90	n.a.
EBIT margin	-6.6%	9.7%	-	-11.6%	-
Net income	-2.76	-1.14	n.a.	-4.24	n.a.
Net margin (%)	-4.3%	-1.9%	-	-7.2%	-
EPS diluted (€)	-0.62	-0.26	n.a.	-0.96	n.a.

Source: First Berlin Equity Research, 2G Energy AG



VALUATION MODEL

Figures in €m	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Net sales	174.10	187.00	200.09	212.10	224.82	236.06	247.87	257.78
Growth yoy	14%	7%	7%	6%	6%	5%	5%	4%
EBIT	8.32	13.81	15.01	15.91	16.86	17.70	18.59	19.33
EBIT margin	4.8%	7.4%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
NOPLAT	5.74	9.53	10.36	10.98	11.63	12.22	12.83	13.34
+ depreciation & amortis. (excl. GW)	2.79	2.94	3.10	3.18	3.37	3.54	3.72	3.87
= net operating cash flow	8.53	12.47	13.46	14.16	15.01	15.76	16.55	17.21
- total investments (Capex and WC)	-0.40	-10.40	-8.50	-11.08	-6.43	-6.24	-6.55	-6.25
capital expenditure	-3.50	-4.00	-5.50	-3.18	-3.37	-3.54	-3.72	-3.87
working capital	3.11	-6.40	-3.00	-7.90	-3.05	-2.70	-2.83	-2.38
+/- 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)	8.14	2.07	4.96	3.07	8.58	9.52	9.99	10.96
PV of FCF's	7.94	1.83	3.97	2.23	5.65	5.68	5.40	5.37

€m	
PVs of FCFs explicit period (2016E-29E)	64.67
PVs of FCFs in terminal period	43.94
Enterprise Value (EV)	108.61
Net cash / (Net debt)	4.24
Shareholder value	112.85
No. of shares outstanding	4.43

Fair value per share (€)	25.50
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WACC	10.3%
Cost of equity	10.7%
Pre-tax cost of debt	4.0%
Normal tax rate	31.0%
After-tax cost of debt	2.8%
Share of equity	95.0%
Share of debt	5.0%
Terminal growth	2.0%
Terminal EBIT margin	7.0%

Sensitivity analysis

Fair value per share (€)

		Terminal EBIT margin						
		5.5%	6.0%	6.5%	7.0%	7.5%	8.0%	8.5%
WACC	13.3%	13.46	15.06	16.66	18.26	19.87	21.47	23.07
	12.3%	14.87	16.63	18.38	20.14	21.89	23.64	25.40
	11.3%	16.60	18.54	20.48	22.42	24.36	26.30	28.25
	10.3%	18.76	20.94	23.11	25.47	27.45	29.62	31.80
	9.3%	21.54	24.00	26.47	28.94	31.40	33.87	36.34
7.3%	30.29	33.68	37.07	40.47	43.86	47.25	50.64	

* for layout purposes the model shows numbers only to 2023, but runs until 2029



INCOME STATEMENT

All figures in €m	2013	2014	2015	2016E	2017E	2018E
Revenues	126.1	186.6	152.9	174.1	187.0	200.1
Total output	137.5	189.6	154.7	185.0	187.6	200.7
Material costs	-96.9	-134.0	-100.6	-127.3	-123.6	-132.3
Gross profit	40.6	55.6	54.1	57.8	64.0	68.4
Personnel expenses	-21.5	-25.5	-29.3	-28.6	-28.9	-30.9
Other operating income	1.7	3.2	3.3	2.6	3.0	3.2
Other operating expenses	-15.5	-19.1	-19.9	-20.7	-21.3	-22.6
EBITDA	5.5	14.0	8.1	11.1	16.8	18.1
Depreciation and amortisation	-2.4	-2.7	-3.3	-2.8	-2.9	-3.1
Operating income (EBIT)	3.1	11.3	4.8	8.3	13.8	15.0
Net financial result	-0.3	-0.3	-0.3	-0.2	-0.2	-0.3
Income before taxes & minority interests	2.8	10.9	4.5	8.1	13.6	14.7
Income taxes	-1.8	-4.1	-1.9	-2.5	-4.2	-4.6
Minority interests	0.1	0.4	-0.2	0.0	0.0	0.0
Net income / loss	0.9	6.5	2.8	5.6	9.4	10.1
EPS in €	0.20	1.47	0.63	1.26	2.12	2.29
Diluted EPS in €	0.20	1.47	0.63	1.26	2.12	2.29
Ratios						
Gross margin	32.2%	29.8%	35.4%	33.2%	34.2%	34.2%
EBIT margin	2.5%	6.0%	3.1%	4.8%	7.4%	7.5%
EBITDA margin	4.4%	7.5%	5.3%	6.4%	9.0%	9.1%
Net income margin	0.7%	3.5%	1.8%	3.2%	5.0%	5.1%
Tax rate	63.3%	37.1%	42.0%	31.0%	31.0%	31.0%
Expenses as % of revenues						
Personnel expenses	17.0%	13.6%	19.2%	16.4%	15.5%	15.4%
Other operating expenses	12.3%	10.2%	13.0%	11.9%	11.4%	11.3%
Depreciation and amortisation	1.9%	1.5%	2.2%	1.6%	1.6%	1.5%
Y/Y growth						
Revenues	-13.9%	47.9%	-18.1%	13.9%	7.4%	7.0%
Operating income	-81.2%	262.2%	-57.7%	74.4%	66.0%	8.7%
Net income / loss	-92.2%	626.2%	-57.2%	101.0%	68.0%	8.1%



BALANCE SHEET

All figures in €m	2013	2014	2015	2016E	2017E	2018E
Assets						
Current assets, total	66.7	69.9	72.4	84.9	91.3	99.2
Cash and cash equivalents	10.5	11.9	10.2	17.5	17.8	20.9
Trade accounts and notes receivables	23.1	22.0	24.6	27.2	30.7	32.9
Inventories	28.1	31.2	32.2	34.8	37.4	40.0
Other current assets	5.1	4.9	5.3	5.4	5.4	5.4
Non-current assets, total	21.9	22.7	23.5	24.1	25.2	27.6
Property, plant and equipment	15.8	16.9	17.7	18.6	19.8	22.4
Goodwill + intangible assets	5.6	5.4	5.8	5.6	5.4	5.2
Financial assets	0.5	0.4	0.0	0.0	0.0	0.0
Total assets	88.6	92.6	95.9	109.0	116.5	126.8
Shareholders' equity & debt						
Liabilities, total	41.5	40.5	43.2	52.5	52.2	54.0
Interest bearing debt	7.2	6.1	5.9	7.0	7.0	7.0
Trade accounts payable	7.5	5.6	5.4	9.4	9.1	10.9
Provisions	10.0	11.2	11.7	11.7	11.7	11.7
Other current liabilities	16.7	17.5	20.2	24.4	24.4	24.4
Shareholders equity, total	47.2	52.1	52.6	56.5	64.3	72.8
Share capital	4.4	4.4	4.4	4.4	4.4	4.4
Capital reserve	11.2	11.2	11.2	11.2	11.2	11.2
Losses carried forward / retained earnings	31.1	35.9	37.1	41.0	48.8	57.3
Other reserves	0.0	-0.3	-0.6	-0.7	-0.6	-0.6
Minority interests	0.3	0.4	0.8	0.5	0.5	0.5
Total consolidated equity and debt	88.6	92.6	95.9	109.0	116.5	126.8
Ratios						
Current ratio (x)	2.5	2.7	2.6	2.4	2.6	2.7
Equity ratio (as %)	53.2%	56.2%	54.9%	51.8%	55.2%	57.4%
Net gearing (as %)	-6.9%	-11.0%	-8.0%	-18.7%	-16.9%	-19.2%
Equity per share (in €)	10.6	11.8	11.9	12.8	14.5	16.4
Net debt	-3.2	-5.7	-4.2	-10.6	-10.9	-14.0
Interest coverage ratio	10	33	17	36	63	47
Av. Working Capital/Sales	27.4%	18.2%	23.6%	20.2%	19.7%	20.7%
Return on Equity (ROE)	1.9%	12.5%	5.3%	9.9%	14.6%	13.9%
Return on capital employed (ROCE)	4.7%	16.9%	6.8%	11.4%	17.5%	17.2%
Days of inventory turnover	81	61	77	73	73	73
Days sales outstanding (DSO)	67	43	59	57	60	60
Days payables outstanding (DPO)	28	15	20	27	27	30



CASH FLOW STATEMENT

All figures in €m	2013	2014	2015	2016E	2017E	2018E
Net income	1.0	6.9	2.6	5.6	9.4	10.1
+ Depreciation and amortisation	2.4	2.7	3.3	2.8	2.9	3.1
- Investment in working capital	0.7	-2.8	-2.0	3.1	-6.4	-3.0
+/- Others (prov., non cash expenses, interest, etc.)	0.0	1.5	-1.8	0.0	0.0	0.0
Operating cash flow	4.1	8.3	2.1	11.5	5.9	10.2
- CAPEX	-3.4	-3.8	-3.3	-3.5	-4.0	-5.5
Free cash flow	0.7	4.4	-1.3	8.0	1.9	4.7
Other cash flow from investing	0.4	0.3	2.3	0.0	0.0	0.0
Investment cash flow	-3.1	-3.5	-1.0	-3.5	-4.0	-5.5
Financial cash flow	-4.7	-3.1	-1.9	-0.6	-1.6	-1.6
Change in cash	-3.6	1.6	-0.8	7.4	0.3	3.1
Exchange rate-related changes	0.0	-0.4	-0.4	0.0	0.0	0.0
Cash, start of the year	13.7	10.1	11.4	10.1	17.5	17.8
Cash, end of the year	10.1	11.4	10.1	17.5	17.8	20.9
Free cash flow per share in €	0.16	1.00	-0.28	1.80	0.43	1.07
Y/Y growth						
Operating cash flow	-	99.9%	-75.0%	456.9%	-48.4%	72.8%
Free cash flow	-	n.a.	n.a.	n.a.	-75.9%	146.3%
Financial cash flow	-	-32.8%	-39.8%	-68.6%	176.8%	0.0%
Free cash flow per share	-	n.a.	n.a.	n.a.	-75.9%	146.3%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	26 November 2010	€13.30	Buy	€18.00
2...38	↓	↓	↓	↓
39	29 April 2016	€18.44	Buy	€25.00
40	30 May 2016	€18.00	Buy	€25.00
41	5 July 2016	€18.06	Buy	€25.00
42	Today	€17.50	Buy	€25.50

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PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

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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%.

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