METZLER Capital Markets

2G Energy (2GB GY) | Utilities/Renewables

September 08, 2023

Margins and order intake on the right track

As already published in August, sales in the first half of the year increased by 19% compared to the previous year. The processing of the high backlog of orders also played a role here. The 14% increase in service sales is encouraging. More and more machines are entering the maintenance-intensive second half of their useful lives, and the number of local service staff is being expanded (without, however, calling into question the partner concept). The EBIT margin rose from 2.2% in the previous year to 3.0% and EBIT from EUR 2.6 million to EUR 4.1 million. This increase is also due to the lower personnel cost ratio. It fell from 20.6% to 19.4%. Overall, the company is well on track with its efficiency improvement project Lead-to-lean: For example, in the first half of 2023, the entire assembly line was converted from a two-shift system to a one-shift system due to more efficient processes. The almost unchanged material cost ratio (67.6% after 67.3% in the previous year) shows that the company's own price increases can now compensate for the increase in input prices. New orders in July and August exceeded the respective previous year's figures. The upturn is coming from all important core regions. 2G is confident that the cumulative order intake in Q3 2023 will be significantly above the previous year's figure (EUR 37.6 million). The targets for FY 2023 with sales between EUR 310m and 350m and an EBIT margin of 6.5 to 8.5% have been confirmed. Investment case unchanged: 2G's CHPs are attractive because of the reliability of the (electricity) supply, the foreseeable shortage of power and heat generation capacity after coal and nuclear phase-outs, the dispatch-capability of CHPs, their high efficiency, the ability to convert to hydrogen at a later date, and the straightforward construction of the plants.

Fundamentals (in EUR m)[1]	2020	2021	2022	2023e	2024e	2025e
Sales	247	266	313	325	336	351
EBITDA	20	22	29	29	35	37
EBIT	17	18	24	24	31	32
EPS adj. (EUR)	0.67	0.70	0.91	0.91	1.15	1.21
DPS (EUR)	0.45	0.50	0.14	0.14	0.15	0.18
BVPS (EUR)	17.69	21.08	6.06	6.44	7.44	7.44
Net Debt incl. Provisions	-6	-11	-3	-22	-42	-62

Ratios[1]	2020	2021	2022	2023e	2024e	2025e
EV/EBITDA	4.6	4.8	14.6	14.2	11.3	10.2
EV/EBIT	5.6	5.8	17.4	17.0	12.9	11.6
P/E adj.	33.3	36.7	25.7	26.8	21.2	20.1
Dividend yield (%)	2.0	1.9	0.6	0.6	0.6	0.7
EBITDA margin (%)	8.2	8.3	9.2	9.0	10.4	10.4
EBIT margin (%)	6.7	6.8	7.7	7.5	9.1	9.2
Net debt/EBITDA	-0.3	-0.5	-0.1	-0.8	-1.2	-1.7
PBV	1.3	1.2	3.9	3.8	3.3	3.3

[1]Sources: Bloomberg, Metzler Research, [2]Sources: ISS ESG, Metzler Research

Buy unchanged

Price* EUR 24.30

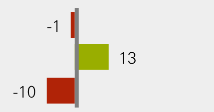
Price target EUR 31.50 (unchanged)

* XETRA trading price at the close of the previous day unless stated otherwise in the Disclosures

Market Cap (EUR m)[1]	436
Enterprise Value (EUR m)[1]	414
Free Float (%)[1]	54.9

Metzler ESG analysis based on ISS ESG data[2]

Deviation from European sector average (in %)

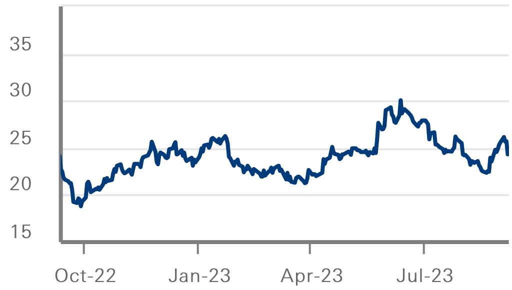


Net-Zero Transformation Risk

Cumulative Beta Adjustment

1.01x

Price (in EUR)[1]



Performance (in %)[1]	1m	3m	12m
Share	4.7	-12.4	2.7
Rel. to SDAX	6.8	-10.1	-7.7

Changes in estimates (in %)[1]	2023e	2024e	2025e
Sales	0.0	0.0	0.0
EBIT	0.0	0.0	0.0
EPS	0.0	0.0	0.0

Sponsored Research

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Key Data

Company profile

CEO: Christian Grotholt | CFO: Friedrich Pehle | Heek, Germany

2G Energy is one of the largest suppliers of decentralized midsized CHP plants in the world. The company was founded in 1995. In 2000, 2G began selling its plants abroad as well. Meanwhile, 2G has installed more than 6500 units in more than 50 countries.

Major shareholders

Christan Grotholt (29.6%), Ludger Gausling (15.5%)

Key figures

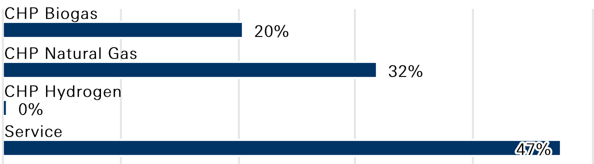
P&L (in EUR m)	2020	%	2021	%	2022	%	2023e	%	2024e	%	2025e	%
Sales	**247**	**4.4**	**266**	**8.0**	**313**	**17.4**	**325**	**4.0**	**336**	**3.4**	**351**	**4.5**
EBITDA	**20**	**4.9**	**22**	**8.3**	**29**	**30.4**	**29**	**1.6**	**35**	**19.6**	**37**	**5.1**
EBITDA margin (%)	8.2	0.5	8.3	0.3	9.2	11.1	9.0	-2.3	10.4	15.6	10.4	0.6
EBIT	**17**	**6.4**	**18**	**8.4**	**24**	**32.8**	**24**	**1.5**	**31**	**25.9**	**32**	**5.5**
EBIT margin (%)	6.7	2.0	6.8	0.5	7.7	13.1	7.5	-2.4	9.1	21.8	9.2	1.0
Financial result	**-0**	**53.6**	**-0**	**-23.4**	**-0**	**-83.8**	**-0**	**7.9**	**-0**	**0.0**	**-0**	**0.0**
EBT	**16**	**7.9**	**18**	**8.3**	**24**	**32.2**	**24**	**1.6**	**30**	**26.3**	**32**	**5.6**
Taxes	5	-9.1	5	15.1	7	39.1	8	5.9	10	26.3	10	5.6
Tax rate (%)	27.4	n.a.	29.2	n.a.	30.7	n.a.	32.0	n.a.	32.0	n.a.	32.0	n.a.
Net income	12	16.1	13	5.7	16	29.3	16	-0.3	21	26.3	22	5.6
Minority interests	0	100.0	-0	n.a.	-0	59.6	0	100.0	0	n.a.	0	n.a.
Net Income after minorities	**12**	**16.0**	**13**	**5.4**	**16**	**29.8**	**16**	**-0.4**	**21**	**26.3**	**22**	**5.6**
Number of shares outstanding (m)	4	0.0	4	1.2	18	300.0	18	0.0	18	0.0	18	0.0
EPS adj. (EUR)	**0.67**	**16.0**	**0.70**	**4.1**	**0.91**	**29.8**	**0.91**	**-0.4**	**1.15**	**26.3**	**1.21**	**5.6**
DPS (EUR)	**0.45**	**0.0**	**0.50**	**11.1**	**0.14**	**-72.0**	**0.14**	**0.0**	**0.15**	**7.1**	**0.18**	**20.0**
Dividend yield (%)	2.0	n.a.	1.9	n.a.	0.6	n.a.	0.6	n.a.	0.6	n.a.	0.7	n.a.

Cash Flow (in EUR m)	2020	%	2021	%	2022	%	2023e	%	2024e	%	2025e	%
Gross Cash Flow	**15**	**16.6**	**18**	**21.2**	**27**	**45.4**	**21**	**-20.7**	**25**	**17.4**	**26**	**5.0**
Increase in working capital	**6**	**n.a.**	**9**	**n.a.**	**22**	**n.a.**	**-2**	**n.a.**	**-1**	**n.a.**	**0**	**n.a.**
Capital expenditures	**2**	**-63.0**	**2**	**-9.5**	**10**	**415.8**	**2**	**-79.6**	**3**	**50.0**	**4**	**33.3**
D+A/Capex (%)	174.5	n.a.	207.4	n.a.	48.0	n.a.	240.0	n.a.	140.0	n.a.	107.5	n.a.
Free cash flow (Metzler definition)	**7**	**298.1**	**7**	**-5.9**	**-5**	**-170.6**	**21**	**527.1**	**23**	**8.0**	**22**	**-3.3**
Free cash flow yield (%)	7.5	n.a.	6.0	n.a.	-1.2	n.a.	4.8	n.a.	5.2	n.a.	5.1	n.a.
Dividend paid	2	0.0	2	0.0	2	12.5	3	12.0	3	0.0	3	7.1
Free cash flow (post dividend)	**5**	**194.7**	**5**	**-8.1**	**-7**	**-243.5**	**19**	**358.8**	**20**	**9.0**	**19**	**-4.6**

Balance sheet (in EUR m)	2020	%	2021	%	2022	%	2023e	%	2024e	%	2025e	%
Assets	**147**	**4.0**	**170**	**15.8**	**212**	**24.7**	**203**	**-4.2**	**227**	**11.8**	**227**	**0.0**
Goodwill	**2**	**-14.3**	**3**	**41.2**	**3**	**-8.6**	**3**	**0.0**	**3**	**0.0**	**3**	**0.0**
Shareholders' equity	**78**	**14.3**	**95**	**20.7**	**109**	**14.9**	**115**	**6.3**	**133**	**15.6**	**133**	**0.0**
Equity/total assets (%)	53.4	n.a.	55.7	n.a.	51.3	n.a.	57.0	n.a.	58.9	n.a.	58.9	n.a.
Net Debt incl. Provisions	**-6**	**n.m.**	**-11**	**-89.5**	**-3**	**67.8**	**-22**	**-543.6**	**-42**	**-92.1**	**-62**	**-45.7**
thereof pension provisions	**0**	**n.a.**	**0**	**n.a.**	**0**	**n.a.**	**0**	**n.a.**	**0**	**n.a.**	**0**	**n.a.**
Gearing (%)	-7.1	n.a.	-11.2	n.a.	-3.1	n.a.	-19.1	n.a.	-31.7	n.a.	-46.2	n.a.
Net debt/EBITDA	-0.3	n.a.	-0.5	n.a.	-0.1	n.a.	-0.8	n.a.	-1.2	n.a.	-1.7	n.a.

Structure

Sales by activity and fuel configuration 2022



Sources: Bloomberg, Metzler Research

ESG discussion

When biogas is burned, discussions arise regarding the conflict of energy production and nutrition. Natural gas as an energy source is not CO2 free and is also controversial. 2G's plants can be converted to hydrogen. The company has no specific target to reduce its carbon emissions but takes measures to reduce its environmental footprint, whose efficiency is reflected in decreasing energy and greenhouse gas emission intensities. Regarding the governance of sustainability, no committee seems to be in charge of sustainability issues and ESG performance does not seem part of the executive compensation scheme. The company has a code of conduct covering relevant issues such as corruption, insider dealings and conflicts of interest.

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Recommendations for each financial instrument or issuer - mentioned in this document - published by Metzler in the past twelve months

Date of dissemination	Metzler recommendation * Previous	Current	Current price **	Price target *	Author ***
Issuer/Financial Instrument (ISIN): 2G Energy (DE000A0HL8N9)					
29.08.2023	Buy	Buy	24.80 EUR	31.50 EUR	Hoymann, Guido
24.08.2023	Buy	Buy	22.45 EUR	31.50 EUR	Hoymann, Guido
25.05.2023	Buy	Buy	24.45 EUR	31.50 EUR	Hoymann, Guido
28.04.2023	Buy	Buy	24.30 EUR	31.50 EUR	Hoymann, Guido
31.03.2023	Buy	Buy	21.75 EUR	31.50 EUR	Hoymann, Guido
26.01.2023	Buy	Buy	25.45 EUR	31.50 EUR	Hoymann, Guido
21.11.2022	Buy	Buy	24.00 EUR	31.50 EUR	Hoymann, Guido
20.10.2022	Buy	Buy	21.35 EUR	31.50 EUR	Hoymann, Guido

* Effective until the price target and/or investment recommendation is updated (FI/FX recommendations are valid solely at the time of publication)

** XETRA trading price at the close of the previous day unless stated otherwise herein

*** All authors are financial analysts

2G Energy

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