

2G Energy AG

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

H1 report

RATING
BUY

PRICE TARGET
€ 34.00

Return Potential 73.6%
 Risk Rating Medium

RETURN TO FULL CAPACITY UTILISATION BY THE END OF Q3

2G Energy confirmed preliminary H1 sales. EBIT (€4.1m) was at the previous year's level and close to our forecast. Despite a 10% decline in total output, the company widened its EBIT margin slightly to 3.1%. This shows how well the industrial production process is now functioning. 2G can adjust costs quickly and flexibly to the level of capacity utilisation. Management assumes that the dip in production will be overcome at the end of Q3 and that capacity will be fully utilised again in Q4. The company is therefore sticking to its guidance (sales: €360m - €390m, EBIT margin: 8.5% to 10%). We confirm our recently lowered forecast for 2024, but see some downside risk to sales. On the other hand, 2G has repeatedly shown what an extraordinary production performance it can achieve in Q4. In view of the record order backlog, we are sticking to our forecasts for the coming years. We consider the recent share price setback to be exaggerated. We therefore recommend investors Buy the share with an unchanged €34 price target and point to the attractive 2025E P/E ratio of 12x.

Remarkable gross margin of 38% We had not expected the 3% weaker half-year sales to be accompanied by a 10% reduction in total output y/y to €150m. The reason for this is that, although customers place binding orders with 2G and make a down payment (usually around 30%), they delay production release due to various bottlenecks (approvals, construction site progress, staff shortages). The development of the material cost ratio is impressive. It fell from 67.6% to 61.9%, reflecting adjustment of list prices and thus a normalisation of the price structure of purchase and sales prices. In addition, a reduction in temporary and contract labour was reflected in the cost of materials ratio.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2021	2022	2023	2024E	2025E	2026E
Revenue (€m)	266.3	312.6	365.1	381.7	443.5	510.0
Y-o-y growth	8.0%	17.4%	16.8%	4.6%	16.2%	15.0%
EBIT (€m)	17.9	22.0	27.6	32.4	43.4	51.1
EBIT margin	6.7%	7.0%	7.6%	8.5%	9.8%	10.0%
Net income (€m)	12.6	16.4	17.9	21.9	29.5	34.8
EPS (diluted) (€)	0.77	0.91	1.00	1.22	1.64	1.94
DPS (€)	0.13	0.14	0.17	0.22	0.26	0.31
FCF (€m)	4.0	-4.4	3.6	13.6	10.1	14.9
Net gearing	-15.5%	-6.6%	-3.4%	-10.4%	-12.5%	-15.7%
Liquid assets (€m)	19.9	13.5	12.6	23.1	29.3	39.6

RISKS

The main risks include project delays, internationalisation, high natural gas prices in combination with low electricity prices.

COMPANY PROFILE

2G Energy AG is a leading producer of combined heat and power (CHP) plants and produces large heat pumps. The company offers a wide product range of CHP and HP plants (CHP: 20 kW to 4.5 MW, HP: 100 kW - 2.6 MW). 2G has a global distribution network and is headquartered in Heek, Germany.

MARKET DATA

As of 09 Sep 2024

Closing Price	€ 19.58
Shares outstanding	17.94m
Market Capitalisation	€ 351.27m
52-week Range	€ 19.06 / 26.75
Avg. Volume (12 Months)	21,202

Multiples	2023	2024E	2025E
P/E	19.6	16.1	11.9
EV/Sales	1.0	0.9	0.8
EV/EBIT	12.6	10.8	8.0
Div. Yield	0.9%	1.1%	1.3%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2024

Liquid Assets	€ 11.08m
Current Assets	€ 189.88m
Intangible Assets	€ 10.30m
Total Assets	€ 232.74m
Current Liabilities	€ 79.49m
Shareholders' Equity	€ 123.82m

SHAREHOLDERS

Christian Grotholt	29.6%
Ludger Gausling	15.5%
Free Float	54.9%

As a result, 2G achieved a remarkably high gross margin of 38.1%, compared to 32.4% in the same period of the previous year. This shows the company's pricing power and competitive strength. Staff increases in sales and service as well as wage rises led to an increase in personnel costs of 11% y/y to €35.8m. The personnel cost ratio rose from 19.4% to 23.9%. In contrast, other operating expenses were reduced slightly in absolute terms. As a result, 2G increased EBITDA by 12% y/y from €6.6m to €7.4m and widened the EBITDA margin from 4.8% to 5.6%. Higher depreciation and amortisation (€3.3m versus €2.4m) meant that EBIT remained stable (see figure 1) and the EBIT margin increased slightly to 3.1%. Net profit rose by 3% to €2.7m.

Figure 1: Reported figures versus forecasts

All figures in €m	H1/24A	H1/24E	delta	H1/23A	delta
Sales	131.2	131.2	0%	135.5	-3%
Total output	150.3	158.4	-5%	166.3	-10%
EBIT	4.1	4.3	-4%	4.1	0%
<i>EBIT margin</i>	3.1%	3.3%	-	3.0%	-
Net income	2.7	2.8	-4%	2.6	3%
<i>Net margin</i>	2.1%	2.1%	-	1.9%	-
EPS diluted (€)	0.15	0.16	-4%	0.15	3%

Source: First Berlin Equity Research, 2G Energy AG

Balance sheet remains strong Equity remained stable at just under €128m and the equity ratio fell slightly to a still high 53.2% due to the balance sheet expansion. The small net cash position at the beginning of the year turned into a low net debt of €-2.1m, mainly due to higher liabilities (see figure 2).

Figure 2: Balance sheet, selected items and KPIs

All figures in €m	H1/24A	2023A	Delta
Cash and cash equivalents	11.1	12.6	-12%
Interest bearing debt	9.6	8.3	16%
Leasing liabilities	3.6	1.9	90%
Net cash position	-2.1	2.4	n.a.
Equity	123.8	124.0	0%
<i>Equity share (%)</i>	53.2%	54.5%	-1,3 PP
Balance sheet total	232.7	227.5	2%

Source: First Berlin Equity Research, 2G Energy AG

Positive free cash flow already in H1 Operating cash flow improved significantly to €4.8m thanks to lower working capital requirements. Investments in property, plant and equipment and intangible assets totalled €4.3m. The largest items were the vehicle fleet (€1.4m) and ERP software (€1.0m). Overall, there was a small positive free cash flow of €0.6m. Financing cash flow totalled €-4.4m and was mainly characterised by the dividend payment of €3.0m. Overall, net cash flow totalled €3.3m (see figure 3 overleaf).

**Figure 3: Cash flow statement, selected items**

All figures in €m	H1/24A	H1/23A
Operating cash flow	4.8	0.1
CAPEX	-4.3	-3.7
Free cash flow	0.6	-3.6
Investment cash flow	-4.4	-3.7
Financial cash flow	-3.7	-3.7
Net cash flow	-3.3	-7.3

Source: First Berlin Equity Research, 2G Energy AG

Record order backlog and high order intake With an order backlog of around €221m at the end of August, 2G has again reached the old record level from June 2022. At the end of 2023, the order backlog stood at €156m. At the end of the first half of the year, 2G reported an order backlog of over €190m, which was slightly below the previous year's figure of €194m. Incoming orders in the first half of the year totalled €93.6m, up 21% on the prior year figure of €77.6m.

Market launch of the demand response genset This new product type, a natural gas engine designed purely for electricity production, is currently being launched on the American market. It is intended to cover peak loads in electricity generation and serves as a substitute for the grid when it is unstable. The US market in particular, with its often unreliable grids, promises great demand potential. According to market surveys, up to 38,000 MW of additional electrical output will be required by 2028 to cover peak loads, primarily from data centres and industrial operations.

With an annual operating time of 2,000 to 3,000 hours, the product is positioned between emergency power generators (up to 300 hours) and conventional CHP units (> 3,000 hours). Based on its decades of engine expertise, 2G has brought a 12-cylinder genset with an output of 650 kW to market maturity. The high-quality unit fulfils particularly high technical requirements. The control technology, turbocharging and cylinder heads are designed to be resilient and with very little downtime. We consider this product to be one of the most promising solutions from 2G in terms of technology and market penetration.

Buy recommendation confirmed at unchanged price target 2G plans to grow by 10% per year plus inflation. Even if this target is likely to be missed in the current year, the growth story remains intact in view of the record order backlog. As a growth stock, 2G is favourably valued at a 2025E P/E ratio of 12x. Our updated DCF model yields an unchanged €34 price target. At the current price level, the share is therefore a clear Buy.



VALUATION MODEL

Figures in €m	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Net sales	381.70	443.49	510.01	566.11	622.72	684.99	746.64	813.84
Growth y/y	5%	16%	15%	11%	10%	10%	9%	9%
EBIT	32.43	43.43	51.09	56.61	62.27	68.50	74.66	81.38
EBIT margin	8.5%	9.8%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
NOPLAT	22.38	29.97	35.25	39.63	43.59	47.95	52.27	56.97
+ depreciation & amortis. (excl. GW)	5.39	5.88	6.61	7.36	8.72	10.27	11.20	12.21
= net operating cash flow	27.77	35.85	41.86	46.99	52.31	58.22	63.46	69.18
- total investments (Capex and WC)	-13.64	-25.20	-26.50	-17.80	-25.81	-27.71	-28.46	-31.02
<i>capital expenditure</i>	-8.40	-8.90	-9.40	-9.62	-9.96	-10.27	-11.20	-12.21
<i>working capital</i>	-5.24	-16.30	-17.10	-8.18	-15.85	-17.44	-17.26	-18.82
+/- 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)	14.13	10.65	15.36	29.19	26.49	30.51	35.00	38.15
PV of FCFs	13.71	9.46	12.49	21.71	18.03	19.00	19.94	19.89

€m	
PVs of FCFs explicit period (2024E-37E)	262.04
PVs of FCFs in terminal period	347.10
Enterprise Value (EV)	609.14
Net cash / (Net debt)	2.39
Minorities	0.02
Shareholder value	611.55
No. of shares outstanding (m)	17.94
Fair value per share (€)	34.09

Terminal growth	3.0%
Terminal EBIT margin	10.0%

WACC	9.3%
Cost of equity	9.6%
Pre-tax cost of debt	4.0%
Normal tax rate	30.0%
After-tax cost of debt	2.8%
Share of equity	95.0%
Share of debt	5.0%
Price Target (€)	34.00

WACC

Sensitivity analysis

	WACC	Terminal EBIT margin						Fair value per share (€)
		8.5%	9.0%	9.5%	10.0%	10.5%	11.0%	
12.3%		16.75	18.16	19.58	21.00	22.41	23.83	25.25
11.3%		19.31	20.91	22.51	24.11	25.72	27.32	28.92
10.3%		22.62	24.46	26.30	28.14	29.98	31.82	33.66
9.3%		27.06	29.21	31.37	34.09	35.68	37.84	39.99
8.3%		33.26	35.85	38.44	41.03	43.63	46.22	48.81
7.3%		42.47	45.70	48.93	52.17	55.40	58.64	61.87
6.3%		57.44	61.71	65.98	70.25	74.52	78.79	83.06

* for layout purposes the model shows numbers only to 2031, but runs until 2037



INCOME STATEMENT

All figures in €m	2021	2022	2023	2024E	2025E	2026E
Revenues	266.3	312.6	365.1	381.7	443.5	510.0
Change in inventories	2.6	26.0	5.8	0.0	0.0	0.0
Own work	0.0	0.2	0.2	0.2	0.2	0.2
Total output	268.9	338.8	371.0	381.9	443.7	510.2
Material costs	-171.3	-224.1	-238.3	-240.5	-283.8	-331.5
Gross profit	97.7	114.7	132.7	141.4	159.9	178.7
Personnel expenses	-49.4	-57.0	-64.3	-72.1	-75.8	-80.0
Other operating income	3.4	4.4	3.1	4.6	5.3	6.1
Other operating expenses	-29.7	-35.3	-36.9	-36.0	-40.0	-47.0
EBITDA	21.9	26.6	34.3	37.8	49.3	57.7
Depreciation and amortisation	-3.9	-4.7	-6.7	-5.4	-5.9	-6.6
Operating income (EBIT)	17.9	22.0	27.6	32.4	43.4	51.1
Net financial result	-0.2	-0.4	-0.6	-0.7	-0.7	-0.7
Income before taxes & minority interests	17.7	23.5	27.1	31.7	42.7	50.4
Other income / expenses	0.0	1.9	0.0	0.0	0.0	0.0
Income taxes	-5.1	-7.1	-9.1	-9.8	-13.2	-15.6
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Net income / loss	12.6	16.4	17.9	21.9	29.5	34.8
EPS in €	0.77	0.91	1.00	1.22	1.64	1.94
Diluted EPS (in €)	0.77	0.91	1.00	1.22	1.64	1.94
Ratios						
Gross margin (gross profit / total output)	36.3%	33.9%	35.8%	37.0%	36.0%	35.0%
EBITDA margin (EBITDA / revenue)	8.2%	8.5%	9.4%	9.9%	11.1%	11.3%
EBIT margin (EBIT / revenue)	6.7%	7.0%	7.6%	8.5%	9.8%	10.0%
Net income margin	4.7%	5.2%	4.9%	5.7%	6.6%	6.8%
Tax rate	28.7%	30.2%	33.6%	31.0%	31.0%	31.0%
Expenses as % of revenues						
Personnel expenses	18.5%	18.2%	17.6%	18.9%	17.1%	15.7%
Other operating expenses	11.2%	11.3%	10.1%	9.4%	9.0%	9.2%
Depreciation and amortisation	1.5%	1.5%	1.8%	1.4%	1.3%	1.3%
Y/Y growth						
Revenues	8.0%	17.4%	16.8%	4.6%	16.2%	15.0%
Operating income	9.1%	22.5%	25.9%	17.3%	33.9%	17.6%
Net income / loss	5.3%	30.0%	9.5%	21.9%	34.7%	18.0%



BALANCE SHEET

All figures in €m	2021	2022	2023	2024E	2025E	2026E
Assets						
Current assets, total	142.6	179.7	188.7	209.1	234.9	266.7
Cash and cash equivalents	19.9	13.5	12.6	23.1	29.3	39.6
Trade accounts and notes receivables	43.4	57.1	58.6	65.9	75.3	86.6
Inventories	72.2	102.6	109.8	112.3	123.2	134.2
Other current assets	7.1	6.5	7.8	7.8	7.1	6.4
Non-current assets, total	27.1	31.9	38.7	41.7	44.8	47.6
Property, plant and equipment	22.6	26.8	28.4	32.0	35.6	39.0
Goodwill + intangible assets	4.5	5.0	10.3	9.7	9.1	8.5
Financial assets	0.0	0.1	0.1	0.1	0.1	0.1
Total assets	169.7	211.6	227.5	250.9	279.7	314.3
Shareholders' equity & debt						
Liabilities, total	75.2	103.0	103.4	108.1	111.4	115.9
Interest bearing debt	5.3	6.3	8.3	8.3	8.3	8.3
Trade accounts payable	11.5	20.5	17.1	21.7	25.7	30.9
Provisions	17.7	21.4	24.4	24.4	24.4	24.4
Other current liabilities	40.7	54.7	53.6	53.6	52.9	52.2
Shareholders equity, total	94.5	108.6	124.0	142.8	168.3	198.5
Share capital*	4.5	17.9	17.9	17.9	17.9	17.9
Capital reserve	16.4	3.0	3.0	3.0	3.0	3.0
Losses carried forward / retained earnings	74.3	88.5	103.9	122.7	148.2	178.4
Other reserves	-0.7	-0.7	-0.8	-0.8	-0.8	-0.8
Minority interests	-0.1	0.0	0.0	0.0	0.0	0.0
Total consolidated equity and debt	169.7	211.6	227.5	250.9	279.7	314.3
*2022: share split						
Ratios						
Current ratio (x)	2.6	2.3	2.6	2.7	2.9	3.1
Equity ratio (as %)	55.7%	51.3%	54.5%	56.9%	60.2%	63.1%
Net gearing (as %)	-15.5%	-6.6%	-3.4%	-10.4%	-12.5%	-15.7%
Equity per share (in €)	21.1	6.1	6.9	8.0	9.4	11.1
Net debt	-14.6	-7.1	-4.3	-14.8	-21.0	-31.2
Interest coverage ratio (x)	87	72	49	44	59	73
Av. working capital/sales	25.4%	26.7%	28.2%	29.9%	28.2%	27.8%
Return on equity (ROE)	13.3%	15.1%	14.5%	15.3%	17.5%	17.5%
Return on capital employed (ROCE)	16.7%	17.3%	18.9%	19.5%	23.1%	23.6%
Days of inventory turnover	99	120	110	107	101	96
Days sales outstanding (DSO)	59	67	59	63	62	62
Days payables outstanding (DPO)	24	33	26	33	33	34



CASH FLOW STATEMENT

All figures in €m	2021	2022	2023	2024E	2025E	2026E
Net income	12.6	16.4	18.0	21.9	29.5	34.8
+ Depreciation and amortisation	3.9	4.7	6.7	5.4	5.9	6.6
- Investment in working capital	-6.4	-21.7	-16.3	-5.2	-16.3	-17.1
+/- Others (prov., non cash expenses, interest, etc.)	-1.3	5.7	3.4	0.0	0.0	0.0
Operating cash flow	8.9	5.0	11.7	22.0	19.0	24.3
- CAPEX	-4.9	-9.4	-8.2	-8.4	-8.9	-9.4
Free cash flow	4.0	-4.4	3.6	13.6	10.1	14.9
Acquisitions	-1.2	-0.3	-3.5	0.0	0.0	0.0
Financial investments	0.9	-0.1	0.0	0.0	0.0	0.0
Disposals	3.3	0.0	0.2	0.0	0.0	0.0
Investment cash flow	-1.8	-9.7	-11.4	-8.4	-8.9	-9.4
Change in financial liabilities	-1.3	1.0	1.9	0.0	0.0	0.0
Dividends paid	-2.0	-2.2	-2.5	-3.0	-3.9	-4.7
Purchase of own shares	0.0	0.0	0.0	0.0	0.0	0.0
Capital measures	5.3	0.0	0.0	0.0	0.0	0.0
Others	-0.3	-0.4	-0.6	0.0	0.0	0.0
Financial cash flow	1.6	-1.6	-1.2	-3.0	-3.9	-4.7
Change in cash	8.6	-6.4	-0.9	10.6	6.2	10.2
Exchange rate-related changes	0.1	-0.3	-0.1	0.0	0.0	0.0
Cash, start of the year	10.5	19.7	13.3	12.5	23.1	29.3
Cash, end of the year	19.7	13.3	12.5	23.1	29.3	39.6
Free cash flow per share in €	0.89	-0.24	0.20	0.76	0.57	0.83
Y/Y growth						
Operating cash flow	-	-43.8%	135.4%	87.8%	-13.5%	27.5%
Free cash flow	-	n.a.	n.a.	282.2%	-25.6%	46.7%
Financial cash flow	-	n.a.	-24.9%	151.6%	29.4%	18.2%
Free cash flow per share	-	n.a.	n.a.	282.2%	-25.6%	46.7%

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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:

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.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

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.

RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	26 November 2010	€3.30	Buy	€4.50
2...90	↓	↓	↓	↓
91	13 September 2023	€25.00	Buy	€34.00
92	4 December 2023	€23.15	Buy	€34.00
93	26 January 2024	€22.60	Buy	€34.00
94	29 February 2024	€22.40	Buy	€34.00
95	12 April 2024	€22.50	Buy	€34.00
96	29 April 2024	€25.10	Buy	€34.00
97	24 May 2024	€25.90	Buy	€34.00
98	26 August 2024	€20.45	Buy	€34.00
99	Today	€19.58	Buy	€34.00

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

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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

can be accessed through the following internet link: <https://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Marie-Curie-Straße 24-28, 60439 Frankfurt am Main

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