

# 2G Energy AG

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

Update

## RATING

## PRICE TARGET

Return Potential  
 Risk Rating

## BUY

€ 31.00

43.2%

Medium

## 2G REMAINS ON ITS GROWTH TRAJECTORY

2G Energy generated very high sales of €79m in Q3, an increase of more than 53% compared to the prior year quarter. In the first nine months, sales increased by 22% y/y to €193m. With Q4 being by far the strongest quarter of the year (Q4/21: €108m), 2G should achieve sales close to €310m, which is the upper end of the 2022 guidance range. Revenue guidance for 2023 is €310m - €350m, which is consistent with our estimate of €335m. For 2024, 2G now expects revenue of up to €390m at an EBIT margin of 8.5% to 10% (previously: €330m at 10% EBIT margin). We are close to the upper end of the 2024 guidance with our revenue forecast of €386m at an EBIT margin of 10%. We have slightly raised our 2022 forecast and see the company's 2023 & 2024 guidance as confirmation that 2G will continue to grow dynamically despite the recession. An updated DCF model still yields a €31 price target. We reiterate our Buy recommendation.

**Q3 sales increase by 53%** The high sales increase in Q3 is also attributable to the low prior-year figure of €51.5m. However, the 9-month revenue increase of 22% is also impressive, especially in the context of a significantly deteriorating macroeconomic environment (recession in H2/22, high inflation, energy crisis in Europe).

**Outlook for 2023 and 2024 brings clarity to 2G's growth outlook** Revenue guidance for 2023 of €310m - €350m means that, based on our 2022 estimate of €305m, growth of up to 15% is possible. 2024 revenue of up to €390m also suggests that double-digit growth is feasible the year after next. We note that 2G has given conservative guidance in recent years.

(p.t.o.)

## FINANCIAL HISTORY & PROJECTIONS

	2019	2020	2021	2022E	2023E	2024E
Revenue (€m)	236.40	246.73	266.35	305.00	335.34	385.64
Y-o-y growth	12.7%	4.4%	8.0%	14.5%	9.9%	15.0%
EBIT (€m)	15.46	16.43	17.93	22.09	30.19	38.56
EBIT margin	6.5%	6.7%	6.7%	7.2%	9.0%	10.0%
Net income (€m)	10.31	11.97	12.61	14.88	20.33	26.11
EPS (diluted) (€)	0.58	0.68	0.77	0.83	1.13	1.46
DPS (€)	0.11	0.11	0.13	0.14	0.19	0.21
FCF (€m)	-3.14	7.07	4.01	5.04	14.41	13.15
Net gearing	-0.2%	-7.1%	-15.5%	-16.2%	-23.4%	-26.4%
Liquid assets (€m)	10.70	11.03	19.93	22.72	34.62	44.36

## RISKS

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

## COMPANY PROFILE

2G Energy AG is a leading producer of combined heat and power (CHP) plants. The company offers a wide product range of plants with a capacity from 20 kW to 4.5 MW and addresses the natural gas, weak gases, and hydrogen markets. 2G is headquartered in Heek, Germany, and has distribution and service sites in various countries.

## MARKET DATA

As of 20 Oct 2022

Closing Price	€ 21.65
Shares outstanding	17.94m
Market Capitalisation	€ 388.40m
52-week Range	€ 18.52 / 32.55
Avg. Volume (12 Months)	32,493

Multiples	2021	2022E	2023E
P/E	30.8	26.1	19.1
EV/Sales	1.4	1.2	1.1
EV/EBIT	20.9	17.0	12.4
Div. Yield	0.6%	0.6%	0.9%

## STOCK OVERVIEW



## COMPANY DATA

As of 30 Jun 2022

Liquid Assets	€ 12.23m
Current Assets	€ 163.82m
Intangible Assets	€ 4.91m
Total Assets	€ 196.89m
Current Liabilities	€ 79.04m
Shareholders' Equity	€ 94.28m

## SHAREHOLDERS

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



**Order intake remains at a high level despite the decline in Q3** Although order intake in Q3 fell by 14% y/y to €37.6m, it increased by 9% to €149.6m on a 9-month basis. Continued brisk demand for 2G CHP suggests further order intake growth in Q4. We estimate that the order backlog remains at a high level after 9 months despite the high sales in Q3 (order backlog at the end of H1: €220.8m + order intake Q3: €37.6m – Q3 sales: €79m = approx. €179m). Capacity utilisation should thus remain high well into the fourth quarter of 2023.

**Technology leadership in hydrogen CHP plants makes 2G products attractive to customers** 2G was an early adopter of hydrogen and offers customers the option to convert their 2G natural gas CHP plants to hydrogen in the future. This is proving to be an important selling point, as customers can switch from fossil natural gas to green hydrogen at any time.

**High gas prices more of an argument for than against natural gas CHP plants** The sharp rise in gas prices resulting from the Russian invasion in Ukraine has tended to stimulate demand for natural gas CHP plants, as high gas prices are outweighed by high electricity and heat prices, making the plants more economical. Especially when gas prices are high, the higher efficiency of CHP plants of up to 98% compared to the uncoupled production of electricity and heat is more significant, as the same amount of energy can be produced with less natural gas. A gas-fired power plant producing only electricity typically achieves an efficiency of about 40%, and combined-cycle plants about 60%.

**Estimates for 2022 slightly increased** As Q3/22 sales were €8.4m above our estimate, we have increased our annual targets and now assume sales of €305m at an EBIT margin of 7.2% (see figure 1).

**Figure 1: Revisions to forecasts**

All figures in €m	2022E			2023E			2024E		
	new	old	delta	new	old	delta	new	old	delta
Sales	305.0	296.6	3%	335.3	335.3	0%	385.6	385.6	0%
EBIT	22.1	20.7	7%	30.2	30.2	0%	38.6	38.6	0%
EBIT margin	7.2%	7.0%	-	9.0%	9.0%	-	10.0%	10.0%	-
Net income	14.9	13.9	7%	20.3	20.3	0%	26.1	26.1	0%
Net margin	4.9%	4.7%	-	6.1%	6.1%	-	6.8%	6.8%	-
EPS diluted (€)	0.83	0.78	7%	1.13	1.13	0%	1.46	1.46	0%

Source: First Berlin Equity Research

**Buy recommendation confirmed at unchanged price target** An updated DCF model still yields a €31 price target. We confirm our Buy recommendation.



## VALUATION MODEL

Figures in €m	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Net sales	305.00	335.34	385.64	443.49	510.01	576.31	639.70	697.28
Growth y/y	15%	10%	15%	15%	15%	13%	11%	9%
EBIT	22.09	30.19	38.56	44.35	51.00	57.63	63.97	69.73
EBIT margin	7.2%	9.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
NOPLAT	15.24	20.83	26.61	31.04	35.70	40.34	44.78	48.81
+ depreciation & amortis. (excl. GW)	4.26	4.69	5.24	6.65	7.65	8.64	9.60	10.46
= net operating cash flow	19.50	25.52	31.85	37.70	43.35	48.99	54.37	59.27
- total investments (Capex and WC)	-14.09	-10.60	-18.20	-18.82	-21.40	-24.56	-24.81	-24.28
capital expenditure	-7.90	-5.40	-5.40	-6.65	-7.65	-8.64	-9.60	-10.46
working capital	-6.19	-5.20	-12.80	-12.16	-13.75	-15.91	-15.21	-13.82
+/- 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)	5.40	14.92	13.65	18.88	21.95	24.43	29.56	34.99
PV of FCFs	5.32	13.46	11.28	14.29	15.21	15.51	17.18	18.63

€m	
PVs of FCFs explicit period (2022E-35E)	227.72
PVs of FCFs in terminal period	312.78
Enterprise Value (EV)	540.50
Net cash / (Net debt)	13.64
Minorities	-0.02
Shareholder value	554.12
No. of shares outstanding (m)	17.94
Fair value per share (€)	30.89

Terminal growth	3.0%
Terminal EBIT margin	10.0%

WACC	9.2%
Cost of equity	9.5%
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 (€)	31.00

		Terminal EBIT margin						Fair value per share (€)
		8.5%	9.0%	9.5%	10.0%	10.5%	11.0%	11.5%
WACC	12.2%	15.49	16.71	17.93	19.15	20.36	21.58	22.80
	11.2%	17.80	19.18	20.55	21.93	23.31	24.69	26.07
	10.2%	20.78	22.37	23.96	25.54	27.13	28.72	30.31
	9.2%	24.79	26.65	28.52	30.89	32.24	34.11	35.97
	8.2%	30.41	32.66	34.91	37.15	39.40	41.65	43.90
	7.2%	38.80	41.62	44.44	47.26	50.08	52.90	55.72
	6.2%	52.59	56.34	60.09	63.84	67.59	71.34	75.09

\* for layout purposes the model shows numbers only to 2029, but runs until 2035



## INCOME STATEMENT

All figures in €m	2019	2020	2021	2022E	2023E	2024E
<b>Revenues</b>	<b>236.4</b>	<b>246.7</b>	<b>266.3</b>	<b>305.0</b>	<b>335.3</b>	<b>385.6</b>
Change in inventories	-10.3	7.4	2.6	0.0	0.0	0.0
Own work	0.0	0.1	0.0	0.1	0.1	0.1
<b>Total output</b>	<b>226.1</b>	<b>254.2</b>	<b>268.9</b>	<b>305.1</b>	<b>335.4</b>	<b>385.7</b>
Material costs	-146.8	-167.3	-171.3	-195.5	-214.6	-246.8
<b>Gross profit</b>	<b>79.4</b>	<b>87.0</b>	<b>97.7</b>	<b>109.6</b>	<b>120.8</b>	<b>138.9</b>
Personnel expenses	-39.0	-44.3	-49.4	-57.0	-59.0	-64.5
Other operating income	2.0	2.3	3.4	3.1	3.4	3.9
Other operating expenses	-23.1	-24.6	-29.7	-29.0	-30.0	-34.2
<b>EBITDA</b>	<b>19.2</b>	<b>20.1</b>	<b>21.9</b>	<b>26.3</b>	<b>34.9</b>	<b>43.8</b>
Depreciation and amortisation	-3.7	-3.7	-3.9	-4.3	-4.7	-5.2
<b>Operating income (EBIT)</b>	<b>15.5</b>	<b>16.4</b>	<b>17.9</b>	<b>22.1</b>	<b>30.2</b>	<b>38.6</b>
Net financial result	-0.4	-0.2	-0.2	-0.5	-0.7	-0.7
<b>Income before taxes &amp; minority interests</b>	<b>15.1</b>	<b>16.3</b>	<b>17.7</b>	<b>21.6</b>	<b>29.5</b>	<b>37.8</b>
Other income / expenses	0.0	0.0	-1.8	0.0	0.0	0.0
Income taxes	-4.8	-4.3	-5.1	-6.7	-9.1	-11.7
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net income / loss</b>	<b>10.3</b>	<b>12.0</b>	<b>12.6</b>	<b>14.9</b>	<b>20.3</b>	<b>26.1</b>
<b>EPS in €</b>	<b>0.58</b>	<b>0.68</b>	<b>0.77</b>	<b>0.83</b>	<b>1.13</b>	<b>1.46</b>
<b>Diluted EPS (in €)</b>	<b>0.58</b>	<b>0.68</b>	<b>0.77</b>	<b>0.83</b>	<b>1.13</b>	<b>1.46</b>
<b>Ratios</b>						
Gross margin	33.6%	35.2%	36.7%	35.9%	36.0%	36.0%
EBIT margin	6.5%	6.7%	6.7%	7.2%	9.0%	10.0%
EBITDA margin	8.1%	8.1%	8.2%	8.6%	10.4%	11.4%
Net income margin	4.4%	4.9%	4.7%	4.9%	6.1%	6.8%
Tax rate	31.8%	26.5%	28.7%	31.0%	31.0%	31.0%
<b>Expenses as % of revenues</b>						
Personnel expenses	16.5%	17.9%	18.5%	18.7%	17.6%	16.7%
Other operating expenses	9.8%	10.0%	11.2%	9.5%	8.9%	8.9%
Depreciation and amortisation	1.6%	1.5%	1.5%	1.4%	1.4%	1.4%
<b>Y/Y growth</b>						
Revenues	12.7%	4.4%	8.0%	14.5%	9.9%	15.0%
Operating income	35.0%	6.2%	9.1%	23.2%	36.7%	27.8%
Net income / loss	37.1%	16.1%	5.3%	18.0%	36.6%	28.4%



## BALANCE SHEET

All figures in €m	2019	2020	2021	2022E	2023E	2024E
<b>Assets</b>						
<b>Current assets, total</b>	<b>112.7</b>	<b>119.8</b>	<b>142.6</b>	<b>156.2</b>	<b>174.8</b>	<b>201.3</b>
Cash and cash equivalents	10.7	11.0	19.9	22.7	34.6	44.4
Trade accounts and notes receivables	37.0	42.2	43.4	50.1	53.3	60.2
Inventories	60.4	60.8	72.2	76.3	79.8	89.7
Other current assets	4.6	5.9	7.1	7.1	7.1	7.1
<b>Non-current assets, total</b>	<b>28.2</b>	<b>26.7</b>	<b>27.1</b>	<b>30.8</b>	<b>31.5</b>	<b>31.6</b>
Property, plant and equipment	24.1	22.9	22.6	26.8	28.1	28.8
Goodwill + intangible assets	3.2	2.9	4.5	4.0	3.4	2.8
Financial assets	0.9	0.9	0.0	0.0	0.0	0.0
<b>Total assets</b>	<b>140.9</b>	<b>146.6</b>	<b>169.7</b>	<b>187.0</b>	<b>206.3</b>	<b>233.0</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Liabilities, total</b>	<b>72.4</b>	<b>68.2</b>	<b>75.2</b>	<b>79.8</b>	<b>81.3</b>	<b>85.3</b>
Interest bearing debt	10.6	5.5	5.3	5.3	5.3	5.3
Trade accounts payable	13.7	10.0	11.5	16.1	17.6	21.6
Provisions	15.4	13.4	17.7	17.7	17.7	17.7
Other current liabilities	32.7	39.4	40.7	40.7	40.7	40.7
<b>Shareholders equity, total</b>	<b>68.5</b>	<b>78.3</b>	<b>94.5</b>	<b>107.2</b>	<b>125.0</b>	<b>147.7</b>
Share capital*	4.4	4.4	4.5	17.9	17.9	17.9
Capital reserve	11.2	11.2	16.4	3.0	3.0	3.0
Losses carried forward / retained earnings	53.7	63.7	74.3	87.0	104.8	127.5
Other reserves	-0.9	-1.0	-0.7	-0.7	-0.7	-0.7
Minority interests	0.7	0.0	-0.1	0.0	0.0	0.0
<b>Total consolidated equity and debt</b>	<b>140.9</b>	<b>146.6</b>	<b>169.7</b>	<b>187.0</b>	<b>206.3</b>	<b>233.0</b>
*2022: share split						
<b>Ratios</b>						
Current ratio (x)	2.2	2.4	2.6	2.7	2.9	3.1
Equity ratio (as %)	48.6%	53.4%	55.7%	57.3%	60.6%	63.4%
Net gearing (as %)	-0.2%	-7.1%	-15.5%	-16.2%	-23.4%	-26.4%
Equity per share (in €)	15.5	17.7	21.1	6.0	7.0	8.2
Net debt	-0.2	-5.6	-14.6	-17.4	-29.3	-39.0
Interest coverage ratio (x)	44	89	87	42	41	53
Av. working capital/sales	22.0%	24.5%	25.4%	24.7%	24.2%	23.4%
Return on equity (ROE)	15.1%	15.3%	13.3%	13.9%	16.3%	17.7%
Return on capital employed (ROCE)	17.1%	17.2%	16.7%	17.8%	21.7%	24.2%
Days of inventory turnover	93	90	99	91	87	85
Days sales outstanding (DSO)	57	62	59	60	58	57
Days payables outstanding (DPO)	34	22	24	30	30	32



## CASH FLOW STATEMENT

All figures in €m	2019	2020	2021	2022E	2023E	2024E
<b>Net income</b>	<b>10.3</b>	<b>12.0</b>	<b>12.6</b>	<b>14.9</b>	<b>20.3</b>	<b>26.1</b>
+ Depreciation and amortisation	3.2	3.7	3.9	4.3	4.7	5.2
- Investment in working capital	-11.4	-5.6	-6.4	-6.2	-5.2	-12.8
+/- Others (prov., non cash expenses, interest, etc.)	-0.7	-0.3	-1.3	0.0	0.0	0.0
<b>Operating cash flow</b>	<b>1.4</b>	<b>9.8</b>	<b>8.9</b>	<b>12.9</b>	<b>19.8</b>	<b>18.5</b>
- CAPEX	-4.5	-2.7	-4.9	-7.9	-5.4	-5.4
<b>Free cash flow</b>	<b>-3.1</b>	<b>7.1</b>	<b>4.0</b>	<b>5.0</b>	<b>14.4</b>	<b>13.1</b>
Acquisitions	-1.4	0.0	-1.2	0.0	0.0	0.0
Financial investments	0.1	0.2	0.9	0.0	0.0	0.0
Disposals	0.2	0.4	3.3	0.0	0.0	0.0
<b>Investment cash flow</b>	<b>-5.7</b>	<b>-2.1</b>	<b>-1.8</b>	<b>-7.9</b>	<b>-5.4</b>	<b>-5.4</b>
Change in financial liabilities	3.1	-5.0	-1.3	0.0	0.0	0.0
Dividends paid	-2.0	-2.0	-2.0	-2.2	-2.5	-3.4
Purchase of own shares	0.0	0.0	0.0	0.0	0.0	0.0
Capital measures	0.0	0.0	5.3	0.0	0.0	0.0
Others	-0.4	-0.4	-0.3	0.0	0.0	0.0
<b>Financial cash flow</b>	<b>0.7</b>	<b>-7.4</b>	<b>1.6</b>	<b>-2.2</b>	<b>-2.5</b>	<b>-3.4</b>
<b>Change in cash</b>	<b>-3.6</b>	<b>0.3</b>	<b>8.6</b>	<b>2.8</b>	<b>11.9</b>	<b>9.7</b>
Exchange rate-related changes	0.0	0.1	0.1	0.0	0.0	0.0
Cash, start of the year	13.6	10.0	10.5	19.7	22.7	34.6
<b>Cash, end of the year</b>	<b>10.0</b>	<b>10.5</b>	<b>19.7</b>	<b>22.7</b>	<b>34.6</b>	<b>44.4</b>
<b>Free cash flow per share in €</b>	<b>-0.71</b>	<b>1.60</b>	<b>0.89</b>	<b>0.28</b>	<b>0.80</b>	<b>0.73</b>
<b>Y/Y growth</b>						
Operating cash flow	-	611.9%	-9.6%	46.0%	53.2%	-6.4%
Free cash flow	-	n.a.	-43.3%	25.6%	186.1%	-8.8%
Financial cash flow	-	n.a.	n.a.	n.a.	12.0%	35.7%
Free cash flow per share	-	n.a.	-44.0%	-68.6%	186.1%	-8.8%

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#### PRICE TARGET DATES

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#### AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

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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 <sup>1</sup>	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%

<sup>1</sup> 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...75	↓	↓	↓	↓
76	15 October 2021	€27.20	Add	€33.00
77	19 November 2021	€27.40	Add	€33.00
78	21 January 2022	€26.40	Buy	€33.00
79	25 February 2022	€94.70	Buy	€30.00
80	11 April 2022	€29.90	Add	€31.00
81	25 April 2022	€28.20	Add	€31.00
82	20 May 2022	€25.55	Add	€31.00
83	6 September 2022	€23.80	Buy	€31.00
84	Today	€21.65	Buy	€31.00



**INVESTMENT HORIZON**

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

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