

2G Energy AG

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

Q3 figures

RATING
BUY

PRICE TARGET
€ 31.00

Return Potential 31.6%
 Risk Rating Medium

PRODUCTION RUNNING SMOOTHLY, COSTS UNDER CONTROL

2G Energy has published Q3 revenue, total output and EBIT which are in line with our expectations. All three KPIs showed strong growth on both a Q3 and 9M basis. Total output after nine months was up 29% y/y at €228m demonstrating continuing high factory output. Thanks to the jump in sales (+20% y/y) and only slightly higher ratios for material costs and other operating expenses, 9M EBIT grew more strongly than sales by 69% to €6.1m. As the fourth quarter is by far the seasonally strongest quarter, the full-year figures are likely to be at the upper end of the guidance range (sales: €290m - €310m, EBIT margin: 6% - 8%) following the very good 9M figures. An updated DCF model still results in a €31 price target. We confirm our Buy recommendation.

Very strong Q3 Although final Q3 revenue of €76.8m was slightly below the preliminary reported figure (€79m), the quarterly growth of 49% y/y was impressive, even though the comparative figure was low. Total output increased by 34% to €90.1m, demonstrating continuing high factory output. EBIT doubled to €3.5m. The 9M figures (see figure 1 overleaf) also boast high growth rates (sales: +20% y/y to €190.8m, EBIT: +69% to €6.1m). The 9M EBIT margin rose from 2.3% to 3.2%.

Guidance confirmed 2G has confirmed guidance (revenue: €290m - €310m, EBIT margin: 6% - 8%). We continue to expect full-year revenue of €305m at an EBIT margin of 7.2%.

2G remains on growth track Despite the looming recession, 2G remains on its growth trajectory. The high factory output in Q3 shows that 2G's supply chains are stable and that production continues to run smoothly. Higher product prices are clearly compensating for increased costs.

(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	14.87	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	5.63	13.81	13.15
Net gearing	-0.2%	-7.1%	-15.5%	-16.8%	-23.4%	-26.4%
Liquid assets (€m)	10.70	11.03	19.93	23.32	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 18 Nov 2022

Closing Price	€ 23.55
Shares outstanding	17.94m
Market Capitalisation	€ 422.49m
52-week Range	€ 18.52 / 32.55
Avg. Volume (12 Months)	30,254

Multiples	2021	2022E	2023E
P/E	33.9	28.8	21.1
EV/Sales	1.6	1.4	1.2
EV/EBIT	23.1	18.8	13.7
Div. Yield	0.5%	0.6%	0.8%

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 Gausling	15.5%
Free Float	54.9%

**Figure 1: Reported figures versus forecasts**

All figures in €m	Q3/22A	Q3/22E	delta	9M/21A	delta	9M/22	9M/21	delta
Sales	76.8	79.0	-3%	51.5	49%	190.8	158.4	20%
Total output	90.1	89.0	1%	67.1	34%	227.9	176.8	29%
EBIT	3.5	3.7	-5%	1.7	106%	6.1	3.6	69%

Source: First Berlin Equity Research, 2G Energy AG

Medium term growth story also intact In October, 2G provided initial guidance for 2023 and 2024. The 2023 revenue guidance of €310m - €350m means that based on our 2022 estimate of €305m, revenue 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. 2G scores with a broad product range of highly efficient combined heat and power plants (CHP) with output ranging from 20 kW to 4.5 MW. Its high efficiency makes CHP technology attractive compared to separate power & heat generation, especially when natural gas prices are high. In most cases, high electricity and heat prices will more than compensate for high natural gas prices. 2G also offers CHP plants that run on alternative fuels such as biogas, mine, or sewage gas. Such plants become more appealing economically when natural gas prices are high. Additionally, 2G offers hydrogen-powered CHP plants, and can convert its natural gas-powered plants to hydrogen at any time in the future. We see 2G as an international leader in hydrogen CHP. With the increasing share of volatile renewable energy sources such as wind and solar, CHP technology is becoming more and more important as a backbone technology that can be operated at any time and at short notice. As one of the leading suppliers of CHP plants, 2G thus remains an attractive growth stock.

Still Buy at unchanged price target An updated DCF model still yields a €31 price target. We reiterate 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	19.49	25.52	31.85	37.70	43.35	48.99	54.37	59.27
- total investments (Capex and WC)	-13.49	-11.20	-18.20	-18.82	-21.40	-24.56	-24.81	-24.28
<i>capital expenditure</i>	-7.90	-5.40	-5.40	-6.65	-7.65	-8.64	-9.60	-10.46
<i>working capital</i>	-5.59	-5.80	-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)	6.00	14.32	13.65	18.88	21.95	24.43	29.56	34.99
PV of FCFs	5.96	13.02	11.37	14.39	15.33	15.62	17.31	18.76

€m	
PVs of FCFs explicit period (2022E-35E)	229.44
PVs of FCFs in terminal period	315.08
Enterprise Value (EV)	544.53
Net cash / (Net debt)	13.64
Minorities	-0.02
Shareholder value	558.14
No. of shares outstanding (m)	17.94
Fair value per share (€)	31.11

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

		Sensitivity analysis						
		Terminal EBIT margin						
		8.5%	9.0%	9.5%	10.0%	10.5%	11.0%	11.5%
WACC	12.2%	15.64	16.87	18.10	19.33	20.56	21.78	23.01
	11.2%	17.95	19.34	20.73	22.12	23.52	24.91	26.30
	10.2%	20.95	22.55	24.15	25.75	27.35	28.95	30.55
	9.2%	24.97	26.85	28.72	31.11	32.48	34.35	36.23
	8.2%	30.61	32.87	35.13	37.40	39.66	41.92	44.19
	7.2%	39.03	41.86	44.70	47.53	50.37	53.21	56.04
	6.2%	52.86	56.63	60.39	64.16	67.93	71.70	75.47

* 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
Revenues	236.4	246.7	266.3	305.0	335.3	385.6
Change in inventories	-10.3	7.4	2.6	8.0	0.0	0.0
Own work	0.0	0.1	0.0	0.1	0.1	0.1
Total output	226.1	254.2	268.9	313.1	335.4	385.7
Material costs	-146.8	-167.3	-171.3	-203.5	-214.6	-246.8
Gross profit	79.4	87.0	97.7	109.6	120.8	138.9
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
EBITDA	19.2	20.1	21.9	26.3	34.9	43.8
Depreciation and amortisation	-3.7	-3.7	-3.9	-4.3	-4.7	-5.2
Operating income (EBIT)	15.5	16.4	17.9	22.1	30.2	38.6
Net financial result	-0.4	-0.2	-0.2	-0.5	-0.7	-0.7
Income before taxes & minority interests	15.1	16.3	17.7	21.6	29.5	37.8
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
Net income / loss	10.3	12.0	12.6	14.9	20.3	26.1
EPS in €	0.58	0.68	0.77	0.83	1.13	1.46
Diluted EPS (in €)	0.58	0.68	0.77	0.83	1.13	1.46
Ratios						
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%
Expenses as % of revenues						
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%
YY growth						
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%	36.7%	28.4%



BALANCE SHEET

All figures in €m	2019	2020	2021	2022E	2023E	2024E
Assets						
Current assets, total	112.7	119.8	142.6	156.8	174.8	201.3
Cash and cash equivalents	10.7	11.0	19.9	23.3	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
Non-current assets, total	28.2	26.7	27.1	30.8	31.5	31.6
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
Total assets	140.9	146.6	169.7	187.6	206.3	233.0
Shareholders' equity & debt						
Liabilities, total	72.4	68.2	75.2	80.4	81.3	85.3
Interest bearing debt	10.6	5.5	5.3	5.3	5.3	5.3
Trade accounts payable	13.7	10.0	11.5	16.7	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
Shareholders equity, total	68.5	78.3	94.5	107.2	125.0	147.7
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
Total consolidated equity and debt	140.9	146.6	169.7	187.6	206.3	233.0
*2022: share split						
Ratios						
Current ratio (x)	2.2	2.4	2.6	2.6	2.9	3.1
Equity ratio (as %)	48.6%	53.4%	55.7%	57.1%	60.6%	63.4%
Net gearing (as %)	-0.2%	-7.1%	-15.5%	-16.8%	-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	-18.0	-29.3	-39.0
Interest coverage ratio (x)	44	89	87	42	41	53
Av. working capital/sales	22.0%	24.5%	25.4%	24.6%	24.1%	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
Net income	10.3	12.0	12.6	14.9	20.3	26.1
+ 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	-5.6	-5.8	-12.8
+/- Others (prov., non cash expenses, interest, etc.)	-0.7	-0.3	-1.3	0.0	0.0	0.0
Operating cash flow	1.4	9.8	8.9	13.5	19.2	18.5
- CAPEX	-4.5	-2.7	-4.9	-7.9	-5.4	-5.4
Free cash flow	-3.1	7.1	4.0	5.6	13.8	13.1
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
Investment cash flow	-5.7	-2.1	-1.8	-7.9	-5.4	-5.4
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
Financial cash flow	0.7	-7.4	1.6	-2.2	-2.5	-3.4
Change in cash	-3.6	0.3	8.6	3.4	11.3	9.7
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	23.3	34.6
Cash, end of the year	10.0	10.5	19.7	23.3	34.6	44.4
Free cash flow per share in €	-0.71	1.60	0.89	0.31	0.77	0.73
Y/Y growth						
Operating cash flow	-	611.9%	-9.6%	52.7%	42.0%	-3.5%
Free cash flow	-	n.a.	-43.3%	40.5%	145.2%	-4.8%
Financial cash flow	-	n.a.	n.a.	n.a.	12.0%	35.7%
Free cash flow per share	-	n.a.	-44.0%	-64.9%	145.2%	-4.8%

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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 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...76	↓	↓	↓	↓
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	21 October 2022	€21.65	Buy	€31.00
85	Today	€23.55	Buy	€31.00

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/>

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