

# 2G Energy AG

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

Q1 2023 results

<b>RATING</b>	<b>ADD</b>
<b>PRICE TARGET</b>	<b>€ 33.00</b>
Return Potential	14.6%
Risk Rating	Medium

## TAILWINDS FOR 2G AFTER STRONG Q1

In the first quarter, 2G Energy increased sales by 41% y/y to €68.5m. EBIT improved from €-0.8m to €0.2m in the typically seasonally weaker first quarter. Despite record Q1 sales, 2G was able to maintain the order backlog at the peak level of the previous year's quarter (€190m). We expect this positive development to continue in subsequent quarters and raise our forecasts. We now expect 2G to achieve sales above guidance (€310m - €350m). We increase our EBIT forecast only slightly and stick to our EBIT margin forecast of 8.0% (EBIT margin guidance: 6.5% - 8.5%), as the pass-through of higher component prices to customers takes time and thus weighs on the margin. An updated DCF model yields a slightly higher price target of €33 (previously: €32). After the recent price increase, we downgrade our rating from Buy to Add as the share price appreciation potential is now below 25%.

**New plant sales drive Q1** The New Plants segment increased sales by 82% y/y to €31.1m. Service sales also showed a clear double-digit increase of +19% to €37.4m. Total output increased by 35% to €81.0m. EBIT improved by €0.6m to €-0.2m (see figure 1 overleaf). The reduction in the energy policy turbulence which followed further Russian expansion in Ukraine and the decline in prices for natural gas and biogas led to an increase in order intake in March. The order backlog remains at a very high level (around €190m). We expect demand for 2G CHP plants to remain high and 2G to end the year with sales above and the EBIT margin at the upper end of the guidance range.

(p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2020	2021	2022	2023E	2024E	2025E
Revenue (€m)	246.73	266.35	312.63	355.00	397.64	443.49
Y-o-y growth	4.4%	8.0%	17.4%	13.6%	12.0%	11.5%
EBIT (€m)	16.43	17.93	21.95	28.33	39.14	44.43
EBIT margin	6.7%	6.7%	7.0%	8.0%	9.8%	10.0%
Net income (€m)	11.97	12.61	16.39	19.04	26.51	30.15
EPS (diluted) (€)	0.68	0.77	0.91	1.06	1.48	1.68
DPS (€)	0.11	0.13	0.14	0.19	0.22	0.24
FCF (€m)	7.07	4.01	-4.39	3.63	15.58	18.63
Net gearing	-7.1%	-15.5%	-6.6%	-6.6%	-13.8%	-20.1%
Liquid assets (€m)	11.03	19.93	13.48	14.60	26.77	41.45

### RISKS

The main risks include regulatory changes, 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. 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 01 Jun 2023

Closing Price	€ 28.80
Shares outstanding	17.94m
Market Capitalisation	€ 516.67m
52-week Range	€ 18.52 / 28.80
Avg. Volume (12 Months)	19,508

Multiples	2022	2023E	2024E
P/E	31.5	27.1	19.5
EV/Sales	1.6	1.4	1.3
EV/EBIT	23.3	18.0	13.0
Div. Yield	0.5%	0.7%	0.8%

### STOCK OVERVIEW



### COMPANY DATA

As of 31 Dec 2022

Liquid Assets	€ 13.48m
Current Assets	€ 179.70m
Intangible Assets	€ 5.01m
Total Assets	€ 21.59m
Current Liabilities	€ 77.75m
Shareholders' Equity	€ 108.61m

### SHAREHOLDERS

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

**Figure 1: Q1 figures versus forecasts**

All figures in €m	Q1/23A	Q1/23E	delta	Q1/22A	delta
Sales	68.5	63.0	9%	48.7	41%
Total output	81.0	76.0	7%	60.2	35%
EBIT	-0.2	-0.1	n.a.	-0.8	n.a.
<i>EBIT margin</i>	<i>-0.3%</i>	<i>-0.2%</i>	<i>-</i>	<i>-1.6%</i>	<i>-</i>

Source: First Berlin Equity Research, 2G Energy AG

**Entering the large heat pump business** In Germany, virtually all municipalities are to be obliged by a federal law to carry out municipal heating planning, which is expected to lead to a significant increase in demand for large-scale heat pumps. As the proposed legislation is still passing through the Bundestag, we will provide a more detailed analysis of the impact in a future publication. Based on the draft law, 2G sees opportunities for itself in the large heat pump sector and has decided to develop its own range of large heat pumps starting at 200 kW<sub>th</sub>, with development based on existing components and proven assemblies. In recent years, 2G has already installed large heat pumps in combination with CHP plants on several occasions on behalf of customers and integrated them into 2G's own CHP control system. Due to the experience 2G has already gained with large heat pumps and the large overlap in components also used for CHP plants (e.g. containers, heat exchangers, heat accumulators, pumps, valves, pipes), we consider the development risk to be rather low. The first machines produced in series expected to be delivered and installed for the 2024/25 heating season. We will not take the additional sales potential into account until the law has passed the Bundestag and 2G has successfully tested the first prototypes.

**Estimates for 2023 and 2024 raised** While 2G has not raised its revenue guidance, CEO Christian Grotholt sees potential for revenue growth of 10% plus inflation. With sales of €312.6m in the previous year, this would translate to sales of just under €363m in the current year, assuming an estimated inflation rate of 6%. We now assume sales of €355m for 2023. Our EBIT estimate increases slightly, but we maintain our margin estimate of 8.0%. We have also slightly increased our forecasts for 2024 (see figure 2).

**Figure 2: Revisions to forecasts**

All figures in €m	2023E			2024E			2025E		
	new	old	delta	new	old	delta	new	old	delta
Sales	355.0	345.0	3%	397.6	385.6	3%	443.5	443.5	0%
EBIT	28.3	27.4	3%	39.1	38.7	1%	44.4	44.4	0%
<i>EBIT margin</i>	<i>8.0%</i>	<i>8.0%</i>	<i>-</i>	<i>9.8%</i>	<i>10.0%</i>	<i>-</i>	<i>10.0%</i>	<i>10.0%</i>	<i>-</i>
Net income	19.0	18.4	3%	26.5	26.2	1%	30.2	30.2	0%
<i>Net margin</i>	<i>5.4%</i>	<i>5.3%</i>	<i>-</i>	<i>6.7%</i>	<i>6.8%</i>	<i>-</i>	<i>6.8%</i>	<i>6.8%</i>	<i>-</i>
EPS diluted (€)	1.06	1.03	3%	1.48	1.46	1%	1.68	1.68	0%

Source: First Berlin Equity Research

**Downgrade to Add with slight price target increase** An updated DCF model based on the increased estimates yields a slightly higher price target of €33 (previously: €32). Following the recent share price appreciation, we downgrade our rating from Buy to Add as the upside potential to our price target is now below 25%.



## VALUATION MODEL

Figures in €m	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Net sales	355.00	397.64	443.49	510.01	586.52	662.76	735.67	801.88
Growth y/y	14%	12%	12%	15%	15%	13%	11%	9%
EBIT	28.33	39.14	44.43	51.00	58.65	66.28	73.57	80.19
EBIT margin	8.0%	9.8%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
NOPLAT	19.55	27.01	30.65	35.70	41.06	46.39	51.50	56.13
+ depreciation & amortis. (excl. GW)	5.26	5.57	5.88	7.65	8.80	9.94	11.03	12.03
= net operating cash flow	24.81	32.58	36.53	43.35	49.85	56.33	62.53	68.16
- total investments (Capex and WC)	-20.68	-16.50	-17.40	-17.42	-29.45	-30.53	-30.72	-29.90
<i>capital expenditure</i>	-7.40	-6.40	-7.40	-7.65	-8.80	-9.94	-11.03	-12.03
<i>working capital</i>	-13.28	-10.10	-10.00	-9.77	-20.66	-20.59	-19.68	-17.88
+/- 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)	4.13	16.08	19.13	25.93	20.40	25.81	31.81	38.25
PV of FCFs	3.95	14.08	15.32	19.00	13.68	15.83	17.85	19.64

€m	
PVs of FCFs explicit period (2023E-36E)	245.12
PVs of FCFs in terminal period	335.30
Enterprise Value (EV)	580.42
Net cash / (Net debt)	6.11
Minorities	-0.04
Shareholder value	586.49
No. of shares outstanding (m)	17.94
Fair value per share (€)	32.69

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 (€)	33.00

### Sensitivity analysis

WACC		Terminal EBIT margin					
		8.5%	9.0%	9.5%	10.0%	10.5%	11.0%
12.3%	15.96	17.30	18.63	19.97	21.30	22.64	23.97
11.3%	18.45	19.97	21.48	23.00	24.51	26.02	27.54
10.3%	21.68	23.42	25.17	26.91	28.66	30.40	32.15
9.3%	26.00	28.05	30.10	32.69	34.20	36.25	38.30
8.3%	32.04	34.51	36.98	39.46	41.93	44.40	46.88
7.3%	41.02	44.11	47.21	50.30	53.40	56.50	59.59
6.3%	55.62	59.72	63.82	67.93	72.03	76.13	80.23

\* for layout purposes the model shows numbers only to 2030, but runs until 2036



## INCOME STATEMENT

All figures in €m	2020	2021	2022	2023E	2024E	2025E
<b>Revenues</b>	<b>246.7</b>	<b>266.3</b>	<b>312.6</b>	<b>355.0</b>	<b>397.6</b>	<b>443.5</b>
Change in inventories	7.4	2.6	26.0	0.0	0.0	0.0
Own work	0.1	0.0	0.2	0.2	0.2	0.2
<b>Total output</b>	<b>254.2</b>	<b>268.9</b>	<b>338.8</b>	<b>355.2</b>	<b>397.8</b>	<b>443.7</b>
Material costs	-167.3	-171.3	-224.1	-227.9	-254.5	-286.5
<b>Gross profit</b>	<b>87.0</b>	<b>97.7</b>	<b>114.7</b>	<b>127.3</b>	<b>143.4</b>	<b>157.2</b>
Personnel expenses	-44.3	-49.4	-57.0	-61.5	-65.1	-72.0
Other operating income	2.3	3.4	4.4	5.0	5.6	6.2
Other operating expenses	-24.6	-29.7	-35.3	-37.1	-39.0	-41.0
<b>EBITDA</b>	<b>20.1</b>	<b>21.9</b>	<b>26.6</b>	<b>33.6</b>	<b>44.7</b>	<b>50.3</b>
Depreciation and amortisation	-3.7	-3.9	-4.7	-5.3	-5.6	-5.9
<b>Operating income (EBIT)</b>	<b>16.4</b>	<b>17.9</b>	<b>22.0</b>	<b>28.3</b>	<b>39.1</b>	<b>44.4</b>
Net financial result	-0.2	-0.2	-0.4	-0.7	-0.7	-0.7
<b>Income before taxes &amp; minority interests</b>	<b>16.3</b>	<b>17.7</b>	<b>23.5</b>	<b>27.6</b>	<b>38.4</b>	<b>43.7</b>
Other income / expenses	0.0	0.0	1.9	0.0	0.0	0.0
Income taxes	-4.3	-5.1	-7.1	-8.6	-11.9	-13.5
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net income / loss</b>	<b>12.0</b>	<b>12.6</b>	<b>16.4</b>	<b>19.0</b>	<b>26.5</b>	<b>30.2</b>
<b>EPS in €</b>	<b>0.68</b>	<b>0.77</b>	<b>0.91</b>	<b>1.06</b>	<b>1.48</b>	<b>1.68</b>
<b>Diluted EPS (in €)</b>	<b>0.68</b>	<b>0.77</b>	<b>0.91</b>	<b>1.06</b>	<b>1.48</b>	<b>1.68</b>
<b>Ratios</b>						
Gross margin (gross profit / total output)	34.2%	36.3%	33.9%	35.8%	36.0%	35.4%
EBITDA margin (EBITDA / revenue)	8.1%	8.2%	8.5%	9.5%	11.2%	11.3%
EBIT margin (EBIT / revenue)	6.7%	6.7%	7.0%	8.0%	9.8%	10.0%
Net income margin	4.9%	4.7%	5.2%	5.4%	6.7%	6.8%
Tax rate	26.5%	28.7%	30.2%	31.0%	31.0%	31.0%
<b>Expenses as % of revenues</b>						
Personnel expenses	17.9%	18.5%	18.2%	17.3%	16.4%	16.2%
Other operating expenses	10.0%	11.2%	11.3%	10.5%	9.8%	9.2%
Depreciation and amortisation	1.5%	1.5%	1.5%	1.5%	1.4%	1.3%
<b>Y/Y growth</b>						
Revenues	4.4%	8.0%	17.4%	13.6%	12.0%	11.5%
Operating income	6.2%	9.1%	22.5%	29.1%	38.2%	13.5%
Net income / loss	16.1%	5.3%	30.0%	16.2%	39.2%	13.7%



## BALANCE SHEET

All figures in €m	2020	2021	2022	2023E	2024E	2025E
<b>Assets</b>						
<b>Current assets, total</b>	<b>119.8</b>	<b>142.6</b>	<b>179.7</b>	<b>194.2</b>	<b>218.9</b>	<b>246.5</b>
Cash and cash equivalents	11.0	19.9	13.5	14.6	26.8	41.5
Trade accounts and notes receivables	42.2	43.4	57.1	62.2	68.6	75.3
Inventories	60.8	72.2	102.6	110.9	117.0	123.2
Other current assets	5.9	7.1	6.5	6.5	6.5	6.5
<b>Non-current assets, total</b>	<b>26.7</b>	<b>27.1</b>	<b>31.9</b>	<b>34.0</b>	<b>34.9</b>	<b>35.7</b>
Property, plant and equipment	22.9	22.6	26.8	29.5	31.0	33.1
Goodwill + intangible assets	2.9	4.5	5.0	4.4	3.8	2.5
Financial assets	0.9	0.0	0.1	0.1	0.1	0.1
<b>Total assets</b>	<b>146.6</b>	<b>169.7</b>	<b>211.6</b>	<b>228.3</b>	<b>253.8</b>	<b>282.1</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Liabilities, total</b>	<b>68.2</b>	<b>75.2</b>	<b>103.0</b>	<b>103.1</b>	<b>105.5</b>	<b>107.7</b>
Interest bearing debt	5.5	5.3	6.3	6.3	6.3	6.3
Trade accounts payable	10.0	11.5	20.5	20.6	23.0	25.9
Provisions	13.4	17.7	21.4	21.4	21.4	21.4
Other current liabilities	39.4	40.7	54.7	54.7	54.7	54.0
<b>Shareholders equity, total</b>	<b>78.3</b>	<b>94.5</b>	<b>108.6</b>	<b>125.2</b>	<b>148.3</b>	<b>174.4</b>
Share capital*	4.4	4.5	17.9	17.9	17.9	17.9
Capital reserve	11.2	16.4	3.0	3.0	3.0	3.0
Losses carried forward / retained earnings	63.7	74.3	88.5	105.0	128.1	154.3
Other reserves	-1.0	-0.7	-0.7	-0.6	-0.6	-0.7
Minority interests	0.0	-0.1	0.0	0.0	0.0	0.0
<b>Total consolidated equity and debt</b>	<b>146.6</b>	<b>169.7</b>	<b>211.6</b>	<b>228.3</b>	<b>253.8</b>	<b>282.1</b>

\*2022: share split

### Ratios

Current ratio (x)	2.4	2.6	2.3	2.5	2.7	3.0
Equity ratio (as %)	53.4%	55.7%	51.3%	54.9%	58.4%	61.8%
Net gearing (as %)	-7.1%	-15.5%	-6.6%	-6.6%	-13.8%	-20.1%
Equity per share (in €)	17.7	21.1	6.1	7.0	8.3	9.7
Net debt	-5.6	-14.6	-7.1	-8.3	-20.4	-35.1
Interest coverage ratio (x)	89	87	72	39	54	61
Av. working capital/sales	24.5%	25.4%	26.7%	28.5%	28.4%	27.7%
Return on equity (ROE)	15.3%	13.3%	15.1%	15.2%	17.9%	17.3%
Return on capital employed (ROCE)	17.2%	16.7%	17.3%	19.6%	23.8%	23.5%
Days of inventory turnover	90	99	120	114	107	101
Days sales outstanding (DSO)	62	59	67	64	63	62
Days payables outstanding (DPO)	22	24	33	33	33	33



## CASH FLOW STATEMENT

All figures in €m	2020	2021	2022	2023E	2024E	2025E
<b>Net income</b>	<b>12.0</b>	<b>12.6</b>	<b>16.4</b>	<b>19.0</b>	<b>26.5</b>	<b>30.2</b>
+ Depreciation and amortisation	3.7	3.9	4.7	5.3	5.6	5.9
- Investment in working capital	-5.6	-6.4	-21.7	-13.3	-10.1	-10.0
+/- Others (prov., non cash expenses, interest, etc.)	-0.3	-1.3	5.7	0.0	0.0	0.0
<b>Operating cash flow</b>	<b>9.8</b>	<b>8.9</b>	<b>5.0</b>	<b>11.0</b>	<b>22.0</b>	<b>26.0</b>
- CAPEX	-2.7	-4.9	-9.4	-7.4	-6.4	-7.4
<b>Free cash flow</b>	<b>7.1</b>	<b>4.0</b>	<b>-4.4</b>	<b>3.6</b>	<b>15.6</b>	<b>18.6</b>
Acquisitions	0.0	-1.2	-0.3	0.0	0.0	0.0
Financial investments	0.2	0.9	-0.1	0.0	0.0	0.0
Disposals	0.4	3.3	0.0	0.0	0.0	0.0
<b>Investment cash flow</b>	<b>-2.1</b>	<b>-1.8</b>	<b>-9.7</b>	<b>-7.4</b>	<b>-6.4</b>	<b>-7.4</b>
Change in financial liabilities	-5.0	-1.3	1.0	0.0	0.0	0.0
Dividends paid	-2.0	-2.0	-2.2	-2.5	-3.4	-3.9
Purchase of own shares	0.0	0.0	0.0	0.0	0.0	0.0
Capital measures	0.0	5.3	0.0	0.0	0.0	0.0
Others	-0.4	-0.3	-0.4	0.0	0.0	0.0
<b>Financial cash flow</b>	<b>-7.4</b>	<b>1.6</b>	<b>-1.6</b>	<b>-2.5</b>	<b>-3.4</b>	<b>-3.9</b>
<b>Change in cash</b>	<b>0.3</b>	<b>8.6</b>	<b>-6.4</b>	<b>1.1</b>	<b>12.2</b>	<b>14.7</b>
Exchange rate-related changes	0.1	0.1	-0.3	0.0	0.0	0.0
Cash, start of the year	10.0	10.5	19.7	13.3	14.6	26.8
<b>Cash, end of the year</b>	<b>10.5</b>	<b>19.7</b>	<b>13.3</b>	<b>14.6</b>	<b>26.8</b>	<b>41.5</b>
<b>Free cash flow per share in €</b>	<b>1.60</b>	<b>0.89</b>	<b>-0.24</b>	<b>0.20</b>	<b>0.87</b>	<b>1.04</b>
<b>Y/Y growth</b>						
Operating cash flow	-	-9.6%	-43.8%	121.5%	99.3%	18.4%
Free cash flow	-	n.a.	n.a.	n.a.	329.3%	19.6%
Financial cash flow	-	n.a.	n.a.	55.5%	35.7%	15.8%
Free cash flow per share	-	n.a.	n.a.	n.a.	329.3%	19.6%

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

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**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...80	↓	↓	↓	↓
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	21 November 2022	€23.55	Buy	€31.00
86	24 February 2023	€22.50	Buy	€31.00
87	3 April 2023	€23.05	Buy	€31.00
88	28 April 2023	€24.70	Buy	€32.00
89	Today	€28.80	Add	€33.00

**INVESTMENT HORIZON**



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

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- 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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