

2G Energy AG

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

Preliminary
 H1 revenue

RATING
BUY

PRICE TARGET
€ 33.00

Return Potential 47.0%
 Risk Rating Medium

STRONG GROWTH IN H1 – UPGRADE TO BUY

2G Energy showed strong growth in the first half of the year, increasing sales by 19% and total output by 20%. For the full year, we assume sales growth of 14% and see the company well positioned at the end of the first half to achieve guidance (sales: €310m - €350m, EBT margin: 6.5% - 8.5%), and our forecasts, especially as the second half of the year is usually seasonally much stronger than the first half. We have left our full-year forecasts unchanged. An updated DCF model yields an unchanged €33 price target. After the share price decline in recent months, we upgrade the rating from Add to Buy. The share price upside is 47%.

Sales up 19% thanks to strong international business The 19% y/y increase in sales to €135.5m (see figure 1 overleaf) was largely driven by international business (+41% y/y), while sales growth in Germany was in the single digits at +8%. Sales growth was particularly strong in the rest of Europe (+55% y/y). This once again demonstrates 2G's successful internationalisation strategy. For years, 2G has been growing faster abroad than on its home market. The share of foreign sales in total sales rose from 32% to 38%. The service business continued its steady growth at +13% y/y. The new plant business was encouragingly strong, growing 27% y/y to €58.7m (see figure 2 overleaf). The removal of the final pandemic-related supply bottlenecks allowed factory output to increase by approx. 20%.

Order intake should recover soon after weak Q2 The second quarter order intake was down 40% y/y (€36.7m vs €60.8m in Q2/22). Fears of a gas shortage in Europe last winter led to a wait-and-see policy in CHP investments, and the dispute in the traffic light coalition over the Housing Energy Act and the postponement of its adoption until after the summer break have exacerbated this. Following the adoption of the Heat Planning Act in the German cabinet and the registration of the Housing Energy Act for a second and third reading in the Bundestag in September, we expect potential customers to abandon their wait-and-see stance soon.

(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 23 Aug 2023

Closing Price	€ 22.45
Shares outstanding	17.94m
Market Capitalisation	€ 402.75m
52-week Range	€ 18.52 / 29.65
Avg. Volume (12 Months)	20,257

Multiples	2022	2023E	2024E
P/E	24.6	21.1	15.2
EV/Sales	1.3	1.1	1.0
EV/EBIT	18.1	14.0	10.1
Div. Yield	0.6%	0.8%	1.0%

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%



The gas price (Virtual Trading Point Netherlands Title Transfer Facility (TTF) Forward 1 Month) has been below €50/MWh since April and was most recently €32/MWh. German natural gas storage facilities were recently 92% full and thus well above the minimum level of 75% planned for 1 September. Only very cold weather will pose problems for Europe next winter. 2G has already indicated that cumulative order intake in July and August exceeds the corresponding prior-year figure.

Figure 1: Sales and total output in H1/23

All figures in €m	H1/23A	H1/23E	delta	H1/22A	delta
Sales	135.5	140.0	-3%	114.0	19%
Total output	165.4	170.0	-3%	137.8	20%

Source: First Berlin Equity Research, 2G Energy AG

Figure 2: Disaggregated sales in H1/23

All figures in €m	H1/23	H1/22	Delta
Total Sales	135.5	114.0	19%
Sales Germany	83.7	77.3	8%
Sales International	51.8	36.7	41%
Sales New Plants	58.7	46.3	27%
Sales Service	76.8	67.7	13%

Source: First Berlin Equity Research, 2G Energy AG

Hydrogen CHP business making headway In the first half of the year, 2G received six orders, mostly from abroad, for the delivery of pure hydrogen CHP plants. This shows that 2G is commercially successful with its hydrogen CHP plants not only in Germany but also internationally.

Major order from Israel in July In early Q3, 2G acquired a major order worth €6.3m from Israel. Delivery of the containerised natural gas CHP cascade is scheduled for the first quarter of 2024. Further projects from Israel are expected to follow in the coming quarters.

Further investment in capacity expansion Against the backdrop of its long-term growth targets, 2G is currently constructing a new multi-purpose hall with a floor area of approx. 1,250 m² and a height of 13 meters at its Heek site in order to have sufficient space for its growing service business and its expanding product portfolio (including large heat pumps in the future).

Management Board remains committed to 2023 & 2024 guidance 2G has confirmed 2023 guidance (sales in a range of €310m to €350m with an EBIT margin between 6.5% and 8.5%). The 2024 guidance (sales of up to €390m with an EBIT margin of 8.5% to 10.0%) also remains a 2G target.

Upgrade to Buy after share price decline in the last two months A DCF model updated on the basis of unchanged forecasts yields an unchanged €33 price target. Following the share price decline in the last two months, we upgrade our rating from Add to Buy. 2G's growth story remains intact.



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	4.01	14.29	15.55	19.28	13.88	16.07	18.12	19.94

€m	
PVs of FCFs explicit period (2023E-36E)	248.78
PVs of FCFs in terminal period	340.30
Enterprise Value (EV)	589.08
Net cash / (Net debt)	6.11
Minorities	-0.04
Shareholder value	595.15
No. of shares outstanding (m)	17.94
Fair value per share (€)	33.17

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						Fair value per share (€)
		8.5%	9.0%	9.5%	10.0%	10.5%	11.0%	
12.3%		16.27	17.63	18.99	20.35	21.71	23.07	24.43
11.3%		18.78	20.32	21.86	23.40	24.94	26.49	28.03
10.3%		22.03	23.80	25.58	27.35	29.12	30.90	32.67
9.3%		26.38	28.46	30.54	33.17	34.70	36.78	38.86
8.3%		32.46	34.97	37.47	39.98	42.49	44.99	47.50
7.3%		41.50	44.63	47.76	50.89	54.03	57.16	60.29
6.3%		56.19	60.33	64.47	68.62	72.76	76.90	81.05

* 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
Revenues	246.7	266.3	312.6	355.0	397.6	443.5
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
Total output	254.2	268.9	338.8	355.2	397.8	443.7
Material costs	-167.3	-171.3	-224.1	-227.9	-254.5	-286.5
Gross profit	87.0	97.7	114.7	127.3	143.4	157.2
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
EBITDA	20.1	21.9	26.6	33.6	44.7	50.3
Depreciation and amortisation	-3.7	-3.9	-4.7	-5.3	-5.6	-5.9
Operating income (EBIT)	16.4	17.9	22.0	28.3	39.1	44.4
Net financial result	-0.2	-0.2	-0.4	-0.7	-0.7	-0.7
Income before taxes & minority interests	16.3	17.7	23.5	27.6	38.4	43.7
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
Net income / loss	12.0	12.6	16.4	19.0	26.5	30.2
EPS in €	0.68	0.77	0.91	1.06	1.48	1.68
Diluted EPS (in €)	0.68	0.77	0.91	1.06	1.48	1.68
Ratios						
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%
Expenses as % of revenues						
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%
Y/Y growth						
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
Assets						
Current assets, total	119.8	142.6	179.7	194.2	218.9	246.5
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
Non-current assets, total	26.7	27.1	31.9	34.0	34.9	35.7
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
Total assets	146.6	169.7	211.6	228.3	253.8	282.1
Shareholders' equity & debt						
Liabilities, total	68.2	75.2	103.0	103.1	105.5	107.7
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
Shareholders equity, total	78.3	94.5	108.6	125.2	148.3	174.4
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
Total consolidated equity and debt	146.6	169.7	211.6	228.3	253.8	282.1
*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
Net income	12.0	12.6	16.4	19.0	26.5	30.2
+ 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
Operating cash flow	9.8	8.9	5.0	11.0	22.0	26.0
- CAPEX	-2.7	-4.9	-9.4	-7.4	-6.4	-7.4
Free cash flow	7.1	4.0	-4.4	3.6	15.6	18.6
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
Investment cash flow	-2.1	-1.8	-9.7	-7.4	-6.4	-7.4
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
Financial cash flow	-7.4	1.6	-1.6	-2.5	-3.4	-3.9
Change in cash	0.3	8.6	-6.4	1.1	12.2	14.7
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
Cash, end of the year	10.5	19.7	13.3	14.6	26.8	41.5
Free cash flow per share in €	1.60	0.89	-0.24	0.20	0.87	1.04

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Ggf. Inhaltlich Verantwortlicher gem. § 6 MDStV

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The production of this recommendation was completed on 24 August 2023 at 10:54

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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...81	↓	↓	↓	↓
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	2 June 2023	€28.80	Add	€33.00
90	Today	€22.45	Buy	€33.00

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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