

2G Energy AG

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

Q3/23 KPIs

RATING	BUY
PRICE TARGET	€ 34.00
Return Potential	46.9%
Risk Rating	Medium

VISIBILITY ON GROWTH INTO 2025

2G Energy increased its Q3 revenue y/y by 1% to €77.6m despite the high prior year figure. On a nine month basis, revenue grew 12% y/y to €213m, making it likely that the upper end of the revenue guidance of €310m - €350m will be reached. Q3 EBIT increased by 14% y/y to €4.0m. On a 9M basis, EBIT rose as much as 33% to €8.1m. With the confirmed sales and EBIT margin guidance for 2024 and sales guidance for 2025 (€390m to €430m) already published, 2G offers a high degree of visibility regarding the planned business development. We maintain our forecasts for the current year but have raised our costs of materials estimate for 2024E and so reduce our EBIT margin assumption from 9.8% to 9.3%. An updated DCF model yields an unchanged €34 price target. With double-digit sales growth and EBIT margin expansion, 2G remains a clear Buy.

2G on track for the upper end of guidance Although the Q3 figures were somewhat weaker than we expected (see figure 1 overleaf), sales and EBIT are still strong on a 9M basis and make it likely that the upper end of full-year guidance will be reached, especially as the fourth quarter is by far the strongest of the year. For the current year, 2G is guiding towards sales of between €310m and €350m. EBIT margin guidance is between 6.5% and 8.5%. We confirm our forecast for the current year and believe the sales guidance may be exceeded, provided that customers cooperate with the acceptance of the CHP systems. There have recently been delays here, while 2G's production continues to go very well, according to management.

Order backlog remains high, incoming orders are picking up In Q3, the order intake increased by 12% y/y to €42m, and management expects the order intake to continue rising in 2024. The order backlog remains at a high level of €195m, which corresponds to production capacity utilisation of just under one year.

(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	36.95	44.43
EBIT margin	6.7%	6.7%	7.0%	8.0%	9.3%	10.0%
Net income (€m)	11.97	12.61	16.39	19.04	24.99	30.15
EPS (diluted) (€)	0.68	0.77	0.91	1.06	1.39	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	14.17	18.53
Net gearing	-7.1%	-15.5%	-6.6%	-6.6%	-13.0%	-19.4%
Liquid assets (€m)	11.03	19.93	13.48	14.60	25.36	39.94

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. Large heat pumps also belong to the product range. The company offers a wide product range of CHP 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.

MARKET DATA

As of 01 Dec 2023

Closing Price	€ 23.15
Shares outstanding	17.94m
Market Capitalisation	€ 415.31m
52-week Range	€ 20.70 / 29.65
Avg. Volume (12 Months)	20,069

Multiples	2022	2023E	2024E
P/E	25.3	21.8	16.6
EV/Sales	1.3	1.2	1.0
EV/EBIT	18.6	14.4	11.1
Div. Yield	0.6%	0.8%	1.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2023

Liquid Assets	€ 11.40m
Current Assets	€ 184.01m
Intangible Assets	€ 5.42m
Total Assets	€ 221.53m
Current Liabilities	€ 89.06m
Shareholders' Equity	€ 108.72m

SHAREHOLDERS

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

Figure 1: Reported figures versus forecasts

All figures in €m	Q3/23A	Q3/23E	delta	9M/22A	delta	9M/23A	9M/22A	delta
Sales	77.6	81.5	-5%	76.8	1%	213.1	190.8	12%
EBIT	4.0	4.3	-7%	3.5	14%	8.1	6.1	33%
EBIT margin	5.2%	5.3%	-	4.6%	-	3.8%	3.2%	-

Source: First Berlin Equity Research, 2G Energy AG

Guidance for 2024 confirmed and first sales guidance for 2025 For 2024, 2G is planning sales of up to €390m with an EBIT margin of 8.5% - 10.0%. The new heat pump business is expected to contribute around €10m to sales. For 2025, 2G expects sales in a range of €390m to €430m (see figure 2). Guidance out to 2025 gives investors a high degree of visibility regarding planned business development.

Figure 2: Guidance 2023 - 2025

All figures in €m	2023E	2024E	2025E
Revenue	310 - 350	up to 390	390 - 430
EBIT margin	6,5% - 8,5%	8,5% - 10%	n.a.

Source: First Berlin Equity Research

2G positions itself as a provider of complex system solutions With the expansion of the heat pump business, 2G will in future be able to offer sophisticated system solutions that include both a CHP system and a large heat pump, thereby setting itself apart from competitors who supply only CHPs or large heat pumps but not both. The company's many years of project and plant construction experience help it to offer customers energy solutions tailored to their actual energy requirements.

The future of CHP technology in the energy transition The volatility of power generation is increasing in line with the rising share of renewable energy. More flexible and controllable power generation units are needed to compensate for this. High capacity is required to guarantee the power supply on cold and dark days without wind. Gas-based CHP plants meet these requirements in terms of flexibility and controllability, but they will be used less and less as the share of renewable energy continues to rise. However, declining annual sales due to a falling number of operating hours should be at least partially compensated for by higher electricity prices in times of scarce power. The decreasing number of operating hours p.a. will also reduce the service requirements for the plants over the course of the year. At the same time, with an unchanged service life in hours, the reduced use of a CHP system p.a. will lead to a longer service life in years. As a result, 2G's service income will decrease *ceteris paribus* per year and at the same time be spread over a greater number of years. However, this effect mainly applies to plants operated by utilities that use their CHP plants to serve the grid.

Federal government's power plant strategy at risk following Federal Constitutional Court ruling Following the ruling of the Federal Constitutional Court, the Climate and Transformation Fund lacks around €60bn, as unused pandemic aid commitments cannot be reallocated.

The Federal Ministry for Economic Affairs and Climate Protection plans to invite tenders for up to 15 GW of hydrogen power plants by 2035, which can be temporarily operated with natural gas (maximum until 2035) until they are connected to the hydrogen grid. In a first step, 10 GW of these 15 GW are to be put out to tender by 2026. In view of the financial shortfall in the Climate Fund, the financing of state funding measures is currently unclear. This lack of funding for large gas-fired power plants could well create an opportunity for



small distributed and hydrogen-capable CHP plants, which can be built quickly at bottleneck points in the electricity grid.

EBIT forecast for 2024E adjusted As mentioned above, we are lowering our EBIT margin assumption for 2024E from 9.8% to 9.3%. Despite this adjustment, 2G remains on a double-digit sales growth path with continuous EBIT margin expansion (see figure 3). We note that our sales estimates are above 2G's characteristically cautious planning.

Figure 3: Revisions to forecasts

All figures in €m	2023E			2024E			2025E		
	new	old	delta	new	old	delta	new	old	delta
Sales	355.0	355.0	0%	397.6	397.6	0%	443.5	443.5	0%
EBIT	28.3	28.3	0%	37.0	39.1	-5%	44.4	44.4	0%
EBIT margin	8.0%	8.0%	-	9.3%	9.8%	-	10.0%	10.0%	-
Net income	19.0	19.0	0%	25.0	26.5	-6%	30.2	30.2	0%
Net margin	5.4%	5.4%	-	6.3%	6.7%	-	6.8%	6.8%	-
EPS diluted (€)	1.06	1.06	0%	1.39	1.48	-6%	1.68	1.68	0%

Source: First Berlin Equity Research

Buy reiterated at unchanged price target An updated DCF model yields an unchanged €34 price target. We confirm our Buy recommendation.



VALUATION MODEL

Figures in €m	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Net sales	355.00	397.64	443.49	510.01	591.62	668.53	748.75	816.14
Growth y/y	14%	12%	12%	15%	16%	13%	12%	9%
EBIT	28.33	36.95	44.43	51.00	59.16	66.85	74.87	81.61
EBIT margin	8.0%	9.3%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
NOPLAT	19.55	25.50	30.65	35.70	41.41	46.80	52.41	57.13
+ depreciation & amortis. (excl. GW)	5.26	5.57	5.88	7.65	8.87	10.03	11.23	12.24
= net operating cash flow	24.81	31.07	36.53	43.35	50.29	56.82	63.64	69.37
- total investments (Capex and WC)	-20.68	-16.40	-17.50	-17.42	-30.91	-30.79	-32.89	-30.44
<i>capital expenditure</i>	-7.40	-6.40	-7.40	-7.65	-8.87	-10.03	-11.23	-12.24
<i>working capital</i>	-13.28	-10.00	-10.10	-9.77	-22.03	-20.77	-21.66	-18.19
+/- 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	14.67	19.03	25.93	19.38	26.03	30.75	38.93
PV of FCFs	4.13	13.41	15.91	19.81	13.54	16.62	17.95	20.78

€m	
PVs of FCFs explicit period (2023E-36E)	254.75
PVs of FCFs in terminal period	347.51
Enterprise Value (EV)	602.26
Net cash / (Net debt)	6.11
Minorities	-0.04
Shareholder value	608.33
No. of shares outstanding (m)	17.94
Fair value per share (€)	33.91

Terminal growth	3.0%
Terminal EBIT margin	10.0%

WACC	9.4%
Cost of equity	9.7%
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

Sensitivity analysis

	Terminal EBIT margin						Fair value per share (€)
	8.5%	9.0%	9.5%	10.0%	10.5%	11.0%	
12.4%	16.77	18.18	19.60	21.02	22.44	23.85	25.27
11.4%	19.30	20.90	22.50	24.10	25.70	27.30	28.90
10.4%	22.57	24.40	26.23	28.07	29.90	31.73	33.56
9.4%	26.92	29.06	31.20	33.91	35.49	37.63	39.77
8.4%	32.98	35.54	38.11	40.67	43.24	45.80	48.36
7.4%	41.91	45.09	48.28	51.46	54.64	57.83	61.01
6.4%	56.27	60.44	64.62	68.79	72.96	77.13	81.30

* 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	-255.7	-286.5
Gross profit	87.0	97.7	114.7	127.3	142.2	157.2
Personnel expenses	-44.3	-49.4	-57.0	-63.5	-66.1	-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	-35.1	-39.0	-41.0
EBITDA	20.1	21.9	26.6	33.6	42.5	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	37.0	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	36.2	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	-11.2	-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	25.0	30.2
EPS in €	0.68	0.77	0.91	1.06	1.39	1.68
Diluted EPS (in €)	0.68	0.77	0.91	1.06	1.39	1.68
Ratios						
Gross margin (gross profit / total output)	34.2%	36.3%	33.9%	35.8%	35.7%	35.4%
EBITDA margin (EBITDA / revenue)	8.1%	8.2%	8.5%	9.5%	10.7%	11.3%
EBIT margin (EBIT / revenue)	6.7%	6.7%	7.0%	8.0%	9.3%	10.0%
Net income margin	4.9%	4.7%	5.2%	5.4%	6.3%	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%	17.9%	16.6%	16.2%
Other operating expenses	10.0%	11.2%	11.3%	9.9%	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%	30.4%	20.2%
Net income / loss	16.1%	5.3%	30.0%	16.2%	31.2%	20.6%



BALANCE SHEET

All figures in €m	2020	2021	2022	2023E	2024E	2025E
Assets						
Current assets, total	119.8	142.6	179.7	194.2	217.5	245.0
Cash and cash equivalents	11.0	19.9	13.5	14.6	25.4	39.9
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	252.3	280.6
Shareholders' equity & debt						
Liabilities, total	68.2	75.2	103.0	103.1	105.6	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	23.1	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	146.8	172.9
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	126.6	152.8
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	252.4	280.6
*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%	58.2%	61.6%
Net gearing (as %)	-7.1%	-15.5%	-6.6%	-6.6%	-13.0%	-19.4%
Equity per share (in €)	17.7	21.1	6.1	7.0	8.2	9.6
Net debt	-5.6	-14.6	-7.1	-8.3	-19.0	-33.6
Interest coverage ratio (x)	89	87	72	39	51	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%	17.0%	17.4%
Return on capital employed (ROCE)	17.2%	16.7%	17.3%	19.6%	22.6%	23.7%
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	25.0	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	-10.0	-10.1
+/- 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	20.6	25.9
- CAPEX	-2.7	-4.9	-9.4	-7.4	-6.4	-7.4
Free cash flow	7.1	4.0	-4.4	3.6	14.2	18.5
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	10.8	14.6
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	25.4
Cash, end of the year	10.5	19.7	13.3	14.6	25.4	39.9
Free cash flow per share in €	1.60	0.89	-0.24	0.20	0.79	1.03
Y/Y growth						
Operating cash flow	-	-9.6%	-43.8%	121.5%	86.5%	26.1%
Free cash flow	-	n.a.	n.a.	n.a.	290.3%	30.8%
Financial cash flow	-	n.a.	n.a.	55.5%	35.7%	15.8%
Free cash flow per share	-	n.a.	n.a.	n.a.	290.3%	30.8%

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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 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.

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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...83	↓	↓	↓	↓
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	24 August 2023	€22.45	Buy	€33.00
91	13 September 2023	€25.00	Buy	€34.00
92	Today	€23.15	Buy	€34.00

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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