

## Daldrup & Söhne

### Reshaping the business

Daldrup & Söhne (D&S) continues to implement its corporate restructuring programme and in July it sold 49% of Geysir Europe to IKAV. H119 results showed a small decline in profitability versus H18 (but an improvement versus FY18) and D&S believes the transition will continue into FY20. The executive board continues to guide for a total group output of €40m and an operational break-even for FY19. Consensus remains more optimistic than guidance and based on consensus forecasts, D&S is trading on an EV/sales multiple for FY19 of 1.2x, compared with a peer group average of 4.1x.

### H119 results show a slight decline in EBIT

Daldrup & Söhne's H119 results showed a total output of €22m, in line with H118. EBIT fell from €1.2m in H118 to -€1.0m in H119. The main reasons for the decline in operating profit were a fall in other operating income (-€0.6m, due to the absence of provision reversal) and a slight rise in material costs (+€0.3m) and personnel expenses (+€0.2m). However, the main cause of the fall in EBIT was the rise in other operating expenses (+€1.4m – mainly costs associated with the sale of its majority stake in its power plant), principally due to the increased cost of removing the overburden. Net debt rose slightly from €62.3m to €62.6m. The figures do not include the receipt of €5.2m from the sale of shares in Geysir Europe (received in July). Any future sale of the Taufkirchen power plant would significantly reduce the debt burden for D&S. Debt reduction remains an important part of the group continuing restructuring plan.

### Strong demand for geothermal power

Low interest rates, favourable and stable regulation, the requirement to reduce CO<sub>2</sub> emissions and the stability that baseload geothermal power provides to the grid, all continue to favour geothermal power. The ongoing strength of the market is reflected in D&S's order book with an order backlog of €43m at the end of August and a potential pipeline of €89m. For 2019, the executive board's guidance remains for a total output of €40m and a 'balanced' or break-even EBIT figure.

### Valuation: Transition reflected in rating

Our valuation analysis uses FY19 consensus forecasts for output of €43m and EBIT of €5m. Consensus continues to reflect a more optimistic outlook for the group than management's guidance for total output of €40m and EBIT break-even. Our consensus-based analysis shows that D&S is trading on an EV/sales multiple for FY19 of c 1.2x compared with a selected peer group average of c 4.1x.

#### Consensus estimates

Year end	Revenue (€m)	EBIT (€m)	Net Income (€m)	EPS (€)	P/E (x)	Yield (%)
12/17	43.0	1.1	0.0	0.0	N/A	N/A
12/18	38.9	(16.6)	(17.2)	(2.9)	N/A	N/A
12/19e	43.0	5.0	(1.0)	(0.1)	N/A	N/A

Source: Refinitiv

#### Alternative energy

11 October 2019

Price €3.53  
Market cap €21m

#### Share price graph



#### Share details

Code	4DS
Listing	Deutsche Börse Scale
Shares in issue	6.0m
Last reported net debt as at June 2019	€62.6m

#### Business description

Daldrup & Söhne is an onshore drilling and environmental services company with vertically integrated competencies in geothermal projects (from feasibility study, permitting and constructing to power supply contracting). It is seeking to create predictable revenue streams as an independent power producer.

#### Bull

- Emission reduction and renewable energy targets provide a positive macro environment.
- Favourable feed-in tariffs continue in Germany.
- Healthy order book.

#### Bear

- Investment in geothermal power is capital intensive.
- Projects can be subject to delays.
- Daldrup & Söhne has little surplus capital for expansion.

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## H119 results

D&S's H119 results showed a total performance figure of €22m, in line with H118. Despite a comparable performance at the top line with H118, H119 group EBIT fell from €1.2m in H118 to -€1.0m. The main reasons for the decline in operating profit were a fall in other operating income (-€0.6m due to the absence of the provision reversal that benefitted H118), a slight rise in material costs (+€0.3m) and in personnel expenses (+€0.2m). However, the principal cause of the fall in EBIT was the rise in other operating expenses (+€1.4m), largely due to the cost of removing the overburden.

### Exhibit 1: H119 results versus H118 – key highlights

€m	H118	H119	Change (%)
Sales	17.1	9.7	-43%
Increase in WIP	4.9	12.3	+151%
Output	22.0	22.0	0%
EBITDA	3.1	0.8	-77%
EBIT	1.2	(1.0)	N/A
Debt	(64.7)	(63.7)	
Cash	2.4	1.1	
Net debt	(62.3)	(62.6)	
Cash flow:			
From operating activities	35.9	3.0	-92%
From investing activities	(61.0)	(0.6)	-99%
From financing activities	2.6	(4.4)	-272%

Source: Daldrup & Söhne

Liabilities to banks reduced from €11.0m in H118 to €9.1m, although other liabilities (which should also be treated as debt) rose from €53.7m to €54.6m. Cash on hand declined by €1.3m from €2.4m to €1.1m. Despite a c €3m positive cash flow from operating activities, a significant outflow from financing activities of €4.35m (bond redemption), offset in part by an FX impact of +0.6m, led to the €1.3m decline in cash in hand (after FX adjustments). The overall total debt of the business declined slightly, from €64.7m to €63.7m, although net debt rose from €62.3m to €62.6m. The figures do not include the receipt of €5.2m from the sale of shares in Geysir Europe (received in July). Any future sale of the Taufkirchen power plant (currently under discussion) would significantly reduce the company's debt burden. We previously estimated that total liabilities associated with Landau and Taufkirchen to be in the region of €33m. Debt reduction remains an important part of the group restructuring plan.

## Post period announcements

Since the period end, Daldrup & Söhne has made two important announcements. In July it completed an important part of the ongoing group restructuring programme with the sale of shares (48.9%) in Geysir Europe and geox (1.0%) to the energy investor IKAV, receiving €5.2m in consideration. In August, D&S confirmed that Stephan Temming, who joined the group in July 2017, had been appointed CFO (with a mandate lasting until 30 July 2024). Mr Temming will be responsible for financial control, business development and investor relations.

### Exhibit 2: Post period-end announcements

Date	Event
19 July 2019	Concludes contract with private equity investor IKAV for the sales of shares in Geysir Europe and geox
23 August 2019	Appointment of Stephan Temming as CFO

Source: Daldrup & Söhne

## Continuity of strategy

After failing to meet its group revenue target or forecast EBIT margins for 2018, Daldrup & Söhne announced a revised strategy for the business (in June 2019). In future, the group's focus will be on the drilling services business, but D&S will continue to invest in medium-sized power projects,

although it does not intend to take a majority position in any of its projects. In short, D&S will diversify its risk over a wider range of projects. While seeking to implement this new strategy D&S will also focus on tightening internal processes (order control, reporting tools) including stricter control and monitoring of the drilling projects. However, a significant amount of corporate restructuring will also be required and to this end, in July, as outlined above, D&S concluded its first contract with the energy investor IKAV, for the sale of shares in Geysir Europe. Discussions for the sale of the Taufkirchen power plant are continuing. It is expected that the restructuring measures will continue to affect the results for FY19 and FY20. D&S will seek to remain a pioneer in deep geothermal energy providing municipal and business consumers with access to this low carbon form of energy.

## Outlook

The macro business environment continues to appear favourable and D&S sees evidence of ongoing interest in geothermal power from both private and municipal customers and indeed it believes that there is an increasing level of interest in projects across Europe. Low interest rates, favourable and stable regulation, the requirement to reduce CO<sub>2</sub> emissions and the stability that baseload geothermal power provides to the grid, all continue to favour geothermal power.

The continuing strength of the market is reflected in D&S's order book with an order backlog of €43m as at the end of August and a potential pipeline of €89m. Although the latest figures represent a small decline on the €48m and €105m recorded at the end of May, they still reflect a robust outlook. The management board continues to expect 'satisfactory' results for FY19 and FY20 at the AG level (drilling services only) – total output of €39m and an EBIT margin of between 2% and 5%). For the group however, the implementation of the D&S group restructuring plan will continue to affect the results and the executive board sees FY19 and FY20 as years of transition (with ongoing talks regarding the potential sale of the Taufkirchen power plant). For 2019 specifically, the executive board is guiding to total output of €40m and a 'balanced', or break-even, EBIT figure.

## Valuation

Daldrup & Söhne continues to trade at around €4/share (up from the lows of €2.65/share reached in August). Our valuation analysis uses FY19 consensus forecasts for revenues of €43m and EBIT of €5m. Consensus continues to reflect a more optimistic outlook for the group than the management board's guidance of total performance of €40m and EBIT break-even. Based on consensus forecasts D&S is trading on an EV/sales multiple for FY19e of c 1.2x compared with a selected peer group average of c 4.1x.

**Exhibit 3: Comparable valuation analysis**

		EV/sales (x)		EV/EBIT (x)	
		2019e	2020e	2019e	2020e
Daldrup & Söhne	4DS.DE	1.2	1.1	10.5	8.8
Awilco Drilling	AWDR.OL	3.1	2.6	-9.7	-19.6
SD Standard drilling	SDSD.OL	2.5	2.2	9.9	6.0
Northern Drilling	NODL.OL	15.1	3.5	-45.9	15.2
Nabors Industries	NBR.BE	1.4	1.3	-337.0	27.3
Transocean	RIG.BE	3.6	3.3	113.4	39.8
Odffjell Drilling	ODL.NO	1.6	1.4	31.5	13.6
Energiekontor		3.5	1.5	16.4	9.0
Good Energy	GOOD.LN	0.6	0.5	11.3	10.3
Ormat Technology	ORA.US	6.0	5.5	20.9	17.1
Median (excluding D&S and negatives)		4.1	2.4	33.9	17.4

Source: Refinitiv. Note: Prices as at 3 October 2019.

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