

## Daldrup & Söhne

### Emission reduction will drive drilling demand

Daldrup & Söhne (Daldrup) felt hardly any impact from the pandemic, reporting 14% growth in total output in FY20. Divestment of the loss-making power plants, efficiency improvements in business operations and more effective cost control were the drivers behind the strong recovery in profitability. The market outlook remains positive, driven by the aim of many governments to reduce carbon emissions, while geothermal electricity and heat are generated in an almost CO<sub>2</sub>-neutral manner. Management expects FY21 total output of around €43m and an underlying EBIT margin of 2–4%.

### FY20 results show strong margin recovery

Daldrup experienced favourable market conditions in FY20 despite the pandemic, with total output increasing by 14% to €47.5m. EBIT improved strongly to €1.9m (4.0% margin) after a loss of €10m in 2019. In January 2020, Daldrup finalised the divestment of Geysir Europe including its two power plants, which had caused a series of losses and exceptional costs over the past few years. The improvement in EBIT was also driven by the efficiency gains in business operations and more effective cost control. Daldrup's financial position also improved further, with net debt declining from €6.0m in 2019 to €4.7m in 2020.

### Positive outlook for drilling

Market conditions for Daldrup remain positive, with governments focusing on renewable energy to reduce emissions from climate-damaging greenhouse gases. Geothermal energy could be used to full advantage in a successful energy transition, because geothermal electricity and heat are generated in an almost CO<sub>2</sub>-neutral manner. Daldrup's order backlog of €24.3m at end April 2021 utilises production capacities for FY21, with larger individual orders extending far into FY22. The company's order pipeline stands at €94.6m, up from €89m at H120. For FY21, Daldrup expects total output of around €43m and an underlying EBIT margin of 2–4%.

### Valuation: Small premium to peer group

Since the beginning of 2021, Daldrup's share price has performed well, up 40% ytd. Based on consensus estimates, the company is valued at an FY21e EV/EBITDA of 9.5x, which represents a small premium to its peers. This compares to a small discount at the time of our [last update](#) in October 2020. The strong recovery in margin in FY20 has triggered a re-rating of the stock, while the outlook for the drilling business also remains positive.

#### Consensus estimates

Year end	Revenue (€m)	EBIT (€m)	EPS (€)	DPS (€)	EV/EBIT (x)	P/E (x)
12/19	24.8	(10.0)	(2.04)	0.00	N/A	N/A
12/20	26.2	1.9	(0.87)	0.00	12.7	N/A
12/21e	34.4	1.2	0.30	0.00	26.2	15.1
12/22e	35.8	2.0	0.18	0.00	14.9	25.1

Source: Daldrup & Söhne, Refinitiv

#### Alternative energy

15 June 2021

**Price** €4.52  
**Market cap** €27m

#### Share price graph



#### Share details

Code 4DS  
Listing Deutsche Börse Scale  
Shares in issue 6.0m  
Net debt at 31 December 2020 €4.7m

#### Business description

Daldrup & Söhne is a provider of drilling and environmental services. The company has four divisions: Geothermics (72% of revenues), Raw Materials & Exploration (14%), Water Supply (12%) and Environmental, Development & Services (2%).

#### Bull

- Emission reduction and renewable targets provide a positive macro environment.
- Strengthened balance sheet.
- Healthy order book.

#### Bear

- Volatility in project sales.
- Projects can be subject to delays.
- Low margins currently.

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## Review of FY20 results

Daldrup felt hardly any impact from the pandemic in FY20, reporting sound top-line growth and a strong recovery in profitability. The company's projects are characterised by relatively long development and decision periods and, once financed, tend to proceed according to plan. Investment decisions by government customers are informed by long-term considerations and are often part of services of general interest.

The total output figure (an aggregation of actual sales and work in progress) rose by 14% to €47.5m after the increase of 5% in the first half. Growth was driven by continued positive sentiment in the drilling business and several new orders.

EBIT turned positive again and came in at €1.9m after the €10m loss in 2019, which was caused by the losses at subsidiary Geysir Europe. In January 2020, Daldrup finalised the divestment of Geysir, as described in our [update note](#) published in June 2020. The improvement in EBIT was also driven by the efficiency gains in business operations and more effective cost control. Daldrup simplified its group structure and completed the implementation of a new IT system. EBIT margin was 4.0%, at the high end of company guidance of 2–4%.

Non-operational charges of €6.4m from the sale of Geysir Europe nevertheless led to a net loss for the year of €5.2m, which the company had announced in February 2021.

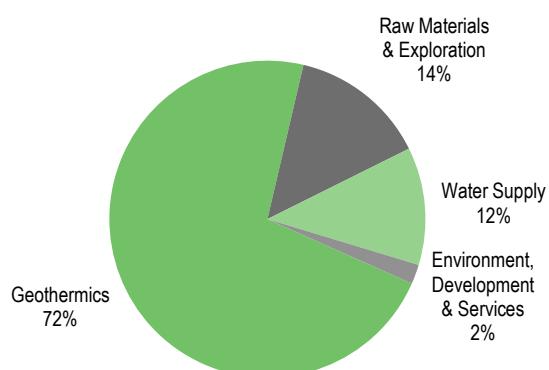
**Exhibit 1: Daldrup FY20 results**

€m	FY19	FY20	% change
Revenue	24.8	26.2	6%
Increase in work in progress	17.0	21.3	25%
Total output	41.8	47.5	14%
EBITDA	(7.1)	4.2	N/A
EBITDA margin, on total output	-16.9%	8.8%	
Depreciation	(2.9)	(2.3)	-21%
EBIT	(10.0)	1.9	N/A
EBIT margin, on total output	-23.9%	4.0%	
Exceptional items	(0.8)	(6.4)	
Profit before tax	(12.3)	(5.0)	N/A
Net profit	(12.3)	(5.2)	N/A
EPS (€)	(2.04)	(0.87)	N/A

Source: Daldrup & Söhne

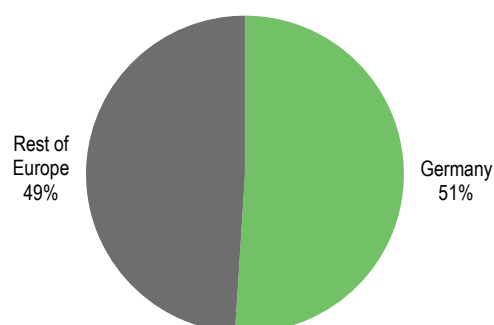
Geographically, the company's focus is on the DACH countries and Benelux. In FY20, 51% of revenues came from Germany, with the remaining 49% largely from the Netherlands and Switzerland. Revenues by activity are shown in Exhibit 2, with geothermic the largest with 72% of total revenues.

**Exhibit 2: Revenue by activity, FY20**



Source: Daldrup & Söhne

**Exhibit 3: Revenue by geography, FY20**



Source: Daldrup & Söhne

## Positive outlook for drilling

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Based on its strong orderbook, Daldrup expects total output in FY21 at around €43m, which compares to the reported €47.5m in 2020. The EBIT margin from the operating business is expected to be 2–4% after the reported 4% in FY20. We consider the guidance for 2021 as cautious because management stated in its press release of 1 June that it cannot rule out that the effects of a persistent or worsening pandemic will have a negative impact on revenues and profits. The order backlog of €24.3m at end April 2021 utilises production capacities for FY21. Larger individual orders extend far into FY22. The order pipeline of €94.6m is also positive overall and signals continued interest in Daldrup's services. The pipeline is defined as potential order volume based on the likelihood of orders being placed following bids submitted or intensive discussions with customers.

Overall market conditions for Daldrup remain positive, with governments focusing on renewable energy to reduce emissions from climate-damaging greenhouse gases. Geothermal energy could be used to full advantage in a successful energy transition, because geothermal electricity and heat are generated in an almost CO<sub>2</sub>-neutral manner. Geothermal energy can be an essential addition to wind and solar capacities in the mix of renewable energies.

Another attractive market segment is the provision of high-quality drilling services such as exploratory drilling for safe final storage sites. Water extraction and dealing with the burdens of mining are also attractive market segments in the long term. Daldrup has a wide range of drilling equipment for different depths: 27 drilling rigs for a depth of up to 400m, eight rigs for depths of 400–2,000m, four rigs for drilling depths of 2,000–4,000m and one Bentec 350-t-AC for deep boreholes up to 6,000m.

Daldrup previously communicated its aim to improve the EBIT margin to at least 4–5% over the next few years. Drivers for this will be the benefits from planned improvements in the group's structure, project planning and control, management systems and the supply of material.

Over the next few years, Daldrup also aims to build a portfolio of minority interests in geothermal power plants for the generation of electricity or heat. This is in contrast with the previous majority stake in power plants (the last part of loss-making Geysir was divested in early 2020). Potential new investments should focus on medium-sized companies that fit Daldrup's risk profile. These participations could arise from drilling contracts for geothermal projects or the acquisition of existing plants. The aim of this portfolio is to generate continuous cash flows in addition to the rather volatile project business in drilling.

## Further strengthening of its financial position

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In 2020, Daldrup's financial position improved further, with net debt declining to €4.7m from €6.0m in 2019, mainly driven by positive operating cash flow. The equity ratio is still strong at 47.3%, albeit slightly lower than the 50.3% in 2019, which was caused by non-operational charges related to financial assets. Daldrup is not currently paying a dividend.

Financial assets represent around 30% of the balance sheet and these largely relate to subordinated loans. As part of the sale of Geysir in early 2020, a large proportion of the long-term debt granted via D&S Geothermie remained on Daldrup's balance sheet as subordinated loans, with Daldrup responsible for the risk of default. In the second half of 2020, Daldrup reported an impairment charge of €6.4m, which is the main reason for the decline in financial assets from €17.8m in H120 to €11.8m at year-end.

Part of the company's strategy is to invest in medium-sized power projects via minority stakes. Additional debt might be required for participating in such minority stakes in geothermal power

plants. Daldrup aims for an equity ratio of 35–40% versus the current 47.3%, which offers room for higher leverage.

**Exhibit 4: Daldrup FY20 balance sheet**

€m	FY19	FY20
Fixed assets	10.2	8.5
Financial assets	12.2	11.8
Current assets	21.3	15.1
Cash	2.7	3.0
Total assets	46.4	38.5
Equity	23.3	18.2
Provisions	1.9	1.3
Interest-bearing debt	8.7	7.7
Other liabilities	12.4	11.3
Total liabilities	46.4	38.5
Equity ratio	50.3%	47.3%
Net debt	6.0	4.7
Net debt/EBITDA (x)	N/A	1.1

Source: Daldrup & Söhne

## Valuation: Small premium to peers

Daldrup's share price recovered during 2020 from the pandemic-driven dip of just under €2.00. The H120 results were well received and showed a return to positive EBIT, resulting in a year-end share price of €3.23. Daldrup's share price has performed well so far in 2021, to reach €4.52 currently.

Based on consensus estimates, Daldrup is valued at an FY21e EV/EBITDA of 9.5x, which reflects a small premium of 9% to the selected peer group. In our last update note published in October 2020, Daldrup was valued at a small discount to peers, but the strong recovery in margin in FY20 has triggered a strong share price performance, while the outlook for the drilling business also remains positive.

**Exhibit 5: Peer group comparison**

	EV/sales (x)		EV/EBITDA (x)	
	2021e	2022e	2021e	2022e
Awilco Drilling	8.4	21.2	-12.0	-46.1
Northern Drilling	8.7	3.4	22.3	7.5
Nabors Industries	1.7	1.5	7.2	6.0
Transocean	3.4	3.3	10.2	10.6
Odffjell	2.0	1.8	6.7	5.3
Energiekontor	4.7	3.8	11.9	9.7
Good Energy Group	0.6	0.6	6.8	6.5
Ormat Technologies	7.9	6.4	12.9	10.8
<b>Median</b>	<b>4.0</b>	<b>3.4</b>	<b>8.7</b>	<b>7.0</b>
<b>Daldrup &amp; Söhne</b>	<b>0.9</b>	<b>0.8</b>	<b>9.5</b>	<b>8.8</b>
<b>Premium/(discount)</b>	<b>(78%)</b>	<b>(76%)</b>	<b>9%</b>	<b>26%</b>

Source: Refinitiv. Prices per 14 June 2021.

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