EDISON

Scale research report - Update

Daldrup & Söhne

Alternative energy

13 October 2020

Profitable again in H120 with further upside

Daldrup & Söhne reported a strong set of results in H120, with minimal impact from the coronavirus-pandemic. Total output increased by 5% to €23m, driven by positive sentiment in the drilling market, and EBIT turned positive to €0.5m after a loss of €1.0m in H119. The company won several large contracts this year, proving that market conditions in the drilling segment remain positive, driven by customers' long-term goal to increase renewable energy sources and reduce carbon emissions. Management reiterated its FY20 guidance of total output of at least €40m and an underlying EBIT margin of 2–4%.

H120 results show return to positive EBIT

Daldrup & Söhne (Daldrup) had a good first half in 2020 despite the turmoil caused by the coronavirus pandemic. Total output increased 5% to €23m, driven by ongoing demand from its customers in Germany, Switzerland and the Netherlands. After being loss-making in 2019, Daldrup reported an operating profit of €0.5m. In January 2020, it 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. Daldrup's financial position has improved significantly with net debt of €4.5m in H120, down from €63m in H119.

Good order intake to date

Market conditions in the geothermal drilling segment remain positive, driven by targets set by its customers to increase the importance of renewable energy and emission reduction. Daldrup has landed a string of orders during 2020, with the most recent being the €4m order from Schwerin to drill an injection well. Management stated that the current order back log of €27m provides capacity utilisation well into 2021 and the company's order pipeline further increased to €119m, up from €89m. Daldrup reiterated FY20 guidance of total output of at least €40 and an underlying EBIT margin of 2–4%.

Valuation: Discount to peer group

Daldrup's share price has reacted positively (up 26% since 30 September) after the return to operating profit in H120. Based on consensus estimates, it is valued at an EV/EBIT for 2021e of 14.6x, which suggests the market is anticipating further growth and margin expansion in the next few years. Daldrup is valued at a discount to its peers, which we think is mainly caused by its below average margin. This offers multiple expansion once the gap in margin has been closed.

Consensus estimates

Year end	Revenue (€m)	EBIT (€m)	EPS (€)	DPS (€)	EV/EBIT (x)	P/E (x)
12/18	38.9	(16.6)	(2.86)	0.00	N/A	N/A
12/19	24.8	(10.8)	(2.04)	0.00	N/A	N/A
12/20e	62.0	1.2	0.12	0.00	17.1	22.3
12/21e	34.4	1.4	0.16	0.00	14.6	16.7

Source: Daldrup & Söhne, Refinitiv (based on one analyst).

Price	€2.68
Market cap	€16m

Share price graph

Share details

Code	4DS
Listing	Deutsche Börse Scale
Shares in issue	6.0m
Last reported net debt at 30 June 2020	€4.5m

Business description

Daldrup & Söhne is a provider of drilling and environmental services. The company has four divisions: Geothermics (80% of total output), Water Supply (6%), Raw Materials & Exploration (11%) and Environmental, Development & Services (3%).

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.

Analyst

Johan van den Hooven +44 (0)20 3077 5700

industrials@edisongroup.com

Edison profile page

Edison Investment Research provides qualitative research coverage on companies in the Deutsche Börse Scale segment in accordance with section 36 subsection 3 of the General Terms and Conditions of Deutsche Börse AG for the Regulated Unofficial Market (Freiverkehr) on Frankfurter Wertpapierbörse (as of 1 March 2017). Two to three research reports will be produced per year. Research reports do not contain Edison analyst financial forecasts.

Review of H120 results

Daldrup & Söhne experienced minimal negative effect from the coronavirus pandemic in the first half of 2020. Its supply and service chains mostly continued to work on time. The company's projects are characterised by a relatively long development and decision period and, once financed, tend to proceed according to plan. Investment decisions by government customers are guided by long-term considerations and are often part of services of general interest.

The output figure (an aggregation of actual sales and work in progress) rose by 5% to €23m, driven by positive sentiment in the drilling business and well-filled order books. EBITDA more than doubled to €1.7m and EBIT was a positive €0.5m after the loss of €1.0m in H119. This reflects an EBIT margin of 2.4%. Reasons for the higher result were improved output, €0.4m lower personnel costs and €0.4m higher other income (eg relating to insurance compensation, sale of property and reversal of provisions). Net profit was break-even after a loss of €2.1m in H119.

In January 2020, Daldrup finalised the divestment of Geysir Europe, as described in our previous update note published in June 2020.

Exhibit 1: Daldrup H120 results

€m	H119	H120	% change
Revenue	9.7	11.9	23%
Increase in work in progress	12.3	11.3	-8%
Total output	22.0	23.2	5%
EBITDA	0.8	1.7	111%
EBITDA margin, on total output	3.7%	7.3%	
Depreciation	(1.8)	(1.2)	-35%
EBIT	(1.0)	0.5	N/A
EBIT margin, on total output	(4.3%)	2.4%	
Profit before tax	(2.2)	0.3	N/A
Net profit	(2.1)	0.1	N/A
EPS, €	(0.35)	0.00	N/A

Source: Daldrup & Söhne

Good order intake in 2020

Daldrup has won several new contracts during 2020. It announced in February that it had started drilling for a second well for Nagra, Switzerland's national co-operative for the disposal of radioactive waste, with a project value of €5.3m (after finalising the first project for €8m). This project is designed to help Nagra find a suitable site for a deep geological repository for radioactive waste. Nagra also commissioned Daldrup to work on a third well and for 2021 an agreement was reached with Nagra to extend the contract for a fourth and, if necessary, a fifth well, thereby securing Daldrup's capacity utilisation in Switzerland for FY21. In March, the company announced a €20m order from Aardwarmte Combinatie Luttelgeest in the Netherlands. This is related to a geothermal heating plant involving the drilling of three geothermal boreholes. The project is expected to be competed in spring 2021. In October 2020, Daldrup received a further order for geothermal drilling from Stadtwerke Schwerin to drill an injection well. The order value is €4m and work will start mid-October.

At the end of September, Daldrup had an order backlog of €27.3m, which should ensure capacity utilisation well into 2021, according to management. The order from Schwerin adds another €4m to the order backlog. The order pipeline showed a further increase from €89m last year to €119m at H120. The pipeline is defined as potential order volume based on the likelihood of orders being placed following bids submitted or intensive customer discussions. According to management, there is good demand from Germany, Switzerland and Benelux.

Outlook

As the coronavirus pandemic had hardly any effect on Daldrup, it is unlikely that its second half results will be significantly affected. There have not been any cancellations so far. Daldrup reiterated its full year guidance for total output of at least €40m, which reflects total output of at least €17m in H220.

The EBIT margin from the operating business is expected to be 2–4% after the loss of €10.8m in FY19, which was mainly the result of the losses at Geysir Group including the two geothermic power plants. This margin range reflects EBIT of €0.8–1.6m or €0.3–1.1m in the second half.

Following the disposal of Geysir, Daldrup's focus is on the drilling business. Expanded funding and incentives for renewable heating provide a helpful backdrop to the business and, with a strong market position, the company remains confident in its ability to improve profits. Management considers an EBIT margin of at least 4–5% to be achievable over the next few years, including the effects of planned improvements in the group's structure, project planning and control, management system and supply of material.

Over the next few years, Daldrup also aims to build up a portfolio of minority interests in geothermal power plants, especially heating plants. However, in contrast to previous years, these minority shareholdings should correspond to the medium-sized structures and Daldrup's risk profile.

Financials

In 2019, Daldrup's balance sheet significantly improved due to the divestment of the Geysir Group including the two geothermal power plants, which were highly capital intensive. Net debt decreased from €62m in FY18 to €6.0m in FY19 and further declined to €4.5m at the end of H120 due to positive operating cash flow.

Financial assets form a large part of the balance sheet and largely consist of subordinated loans. As part of the sale of Geysir, a large proportion of the long-term debt granted via D&S Geothermie remained on Daldrup's balance sheet as subordinated loans. The risk for Daldrup is that these loans will not be fully repaid, which might lead to additional impairments.

The equity ratio further improved in H120 to 51.7% from 50.3% at FY19 (37.9% in H119 before the sale of Geysir). Daldrup is currently not paying a dividend, which also supports the equity ratio. It is currently striving for an equity ratio of 35–40%, which offers room for higher leverage.

Daldrup might invest again in medium-sized power projects, but this will be a minority stake in contrast to the previous majority stake in power plants. Debt might be required for participating in such minority stakes in geothermal power plants.

Exhibit 2: Daldrup H120 balance sheet

€m	FY19	H120
Fixed assets	10.2	9.2
Financial assets	12.2	17.8
Current assets	21.3	17.4
Cash	2.7	3.3
Total assets	46.4	47.6
Equity	23.3	24.6
Provisions	1.9	1.4
Interest bearing debt	8.7	7.7
Other liabilities	12.4	13.9
Total liabilities	46.4	47.6
Equity ratio	50.3%	51.7%
Net debt	6.0	4.5

Source: Daldrup & Söhne

Valuation

Daldrup's H120 results were well received, with the share price jumping 26% since publication on 30 September 2020. The main reasons for this were most likely the return to positive EBIT and a further strengthened financial position.

Consensus estimates assume EBIT of €1.4m in 2021. Based on this estimate, Daldrup is valued at a 2021e EV/EBIT of 14.6x. This level suggests that the market is anticipating further growth and EBIT margin expansion from the current relatively low level of 2–4%, which is company guidance for 2020. Daldrup is valued at a discount to its peers, which we believe is mainly caused by its below average margin. This offers multiple expansion once the gap in margin has been closed.

Exhibit 3: Peer group comparison

	EV/Sales (x)		EV/EBIT (x)	
	2020e	2021e	2020e	2021e
Awilco Drilling	-1.1	-1.1	N/A	N/A
SD Standard Drilling	0.0	-0.1	N/A	-0.2
Northern Drilling	5.2	2.5	N/A	N/A
Nabors Industries	1.5	1.7	N/A	N/A
Transocean	2.8	3.3	543.1	N/A
Odfjell Drilling	2.0	2.2	11.3	18.4
7C Solarparken	8.5	8.2	27.3	24.8
Energiekontor	4.1	2.5	17.6	14.1
Good Energy	0.6	0.6	13.8	13.3
Ormat Technology	6.3	6.0	20.2	18.8
Median	**2.4**	**2.3**	**18.9**	**16.3**
Daldrup & Söhne	**0.4**	**0.6**	**17.1**	**14.6**
Premium/(discount)	**(83%)**	**(74%)**	**(10%)**	**(10%)**

Source: Refinitiv

EDISON

General disclaimer and copyright

Any Information, data, analysis and opinions contained in this report do not constitute investment advice by Deutsche Börse AG or the Frankfurter Wertpapierbörse. Any investment decision should be solely based on a securities offering document or another document containing all information required to make such an investment decision, including risk factors. This report has been commissioned by Deutsche Börse AG and prepared and issued by Edison for publication globally.

Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia