2G Energy

Alternative energy

Next-generation, smart-energy solutions

2G Energy is the third-largest provider of gas-driven combined heat power (CHP) plants in Germany. It has diversified its activities so that it is less exposed to changes in the regulatory environment for renewables and CHP in Germany through expanding export markets and service revenues. Gas-powered systems are becoming increasingly important as sources of power for supplying the difference when output from solar and wind systems is low. The stock represents a low-risk play on the shift to decentralised, decarbonised modes of power generation.

Strong growth in service revenues de-risks business

Group sales increased by 16% y-o-y during H118 to €84.1m, although the headline number was distorted by €8.4m exceptionals. Stripping this out, sales grew by 5%. Growth was driven by a strong increase in sales of biogas modules in Germany and in service revenues. Despite the surge in domestic product sales, exports constituted 46% of all CHP sales and 24% of service sales, showing that the company is becoming more resilient to changes in the regulatory environment in individual markets. It was also pleasing to note that the drive to improve monetisation of services was successful, as the development of service revenues gives additional protection from potential downturns in demand for CHP equipment and a mechanism for removing some of the seasonality in sales. Service revenues grew by 21% year-on-year to 46% of the total. EBIT, which was not distorted by the exceptional item, moved from a loss of €0.5m in H117 to a €1.1m profit in H118.

Management reiterates FY18 guidance

The combination of the positive first-half performance and the strong order book position has encouraged management to confirm the guidance for FY18 that it gave in April. This is for net sales between €180m and €210m, and an EBIT margin of 3.5–5.5%. The FY17 EBIT margin was 3.9%, so management is confident that the efficiency measures introduced in FY17 and further margin increases in the service business will result in a further improvement in this metric.

Valuation: Trading at a discount to established peers

The share price has dropped from its peak of €24.00 in July. At current levels, it is trading at a discount to the means for our sample of established boiler manufacturers on all metrics, eg the year 1 P/E is 14.6x vs 14.4x for our sample mean. This suggests potential for an uplift in valuation if management is able to raise EBIT margins to the levels shown in the consensus estimates (5.1% FY18).

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/16	174.3	5.4	0.40	0.40	53.8	1.9
12/17	189.4	7.2	1.11	0.42	19.4	2.0
12/18e	196.7	9.6	1.47	0.43	14.6	2.0
12/19e	207.3	11.6	1.78	0.47	12.1	2.2

Source: 2G Energy data, Bloomberg

Price	€21.50
Market cap	€95m

Share price graph

Share details

Code	2GB
Shares in issue	4.4m
Net cash (€m) as at end-June 2018	14.2

Business description

2G Energy is a leading international manufacturer of highly efficient combined heat and power plants (CHP). These are deployed in the housing industry, agriculture, commercial and industrial companies, public energy utilities, and municipal and local government authorities.

Bull

- Decentralised CHP solutions reduce CO_2 emissions by improving conversion efficiency.
- Remote control capability improves service margins.
- Remote control capability aids integration into virtual power plants.

Bear

- Uptake affected by green regulation, eg termination of waiver of EEG levy.
- Economics depends on spark spread.
- Low free float (46.7%).

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