

## Daldrup & Söhne

### Improving outlook expected for 2019

Following a disappointing 2018, Daldrup & Söhne has embarked on a strategic realignment. Although the realignment will take some time to bear fruit, the outlook for FY19 appears more promising and the financial position of the company should improve after the recently announced disposals. For FY19 Daldrup & Söhne is expecting group revenue of €40m and a breakeven performance at the EBIT level. Based on consensus forecasts, the company is trading on an EV/Sales multiple for 2019 of 1.2x, towards the bottom end of the range for its peer group (average 3.3x).

### FY18 results fall below target

In 2018 Daldrup & Söhne failed to meet its group revenue target of €40m or its forecast EBIT margin of between 2% and 5%, recording losses at the EBITDA (€12.7m) and EBIT levels (€16.3m). The reduction in profitability resulted from one-off valuation adjustments, significantly higher material costs (€29.1m in FY18 versus €21.8m in FY17) and delays due to bad weather, customer orders and the commissioning of the Taufkirchen power plant. As a result of the consolidation of the Taufkirchen geothermal power plant during the year, overall indebtedness rose from €39.9m in 2017 to €64.7m in 2018. Following the difficulties of FY18, the executive board has proposed a 'realignment' of strategy to the supervisory board. It is proposed that the strategy will be to focus on the drilling service business and minority holdings medium-sized power projects.

### EBIT breakeven targeted for FY19

The outlook for FY19 appears more promising. The regulatory framework for geothermal power generation in Germany remains attractive and at the company level trading remains strong. At the end of May Daldrup & Söhne had an order backlog of €48m and a pipeline of €105m. The financial position of the company should improve after the recently announced disposals (expected proceeds €5.2m and the deconsolidation of other liabilities). Overall for FY19 Daldrup & Söhne is expecting group revenue of €40m and a breakeven EBIT performance.

### Valuation: Below peer group averages

We base our valuation analysis on consensus forecasts for FY19 which are more optimistic than management forecasts (EBIT €5m versus €0m). At a share price of c €4.15, the company is trading on an EV/Sales multiple for FY19e of c 1.2x, towards the bottom end of the range of quoted peers. The FY19e EV/EBIT multiple of 10.5x is also below the peer group median of 11.3x.

#### Consensus estimates

Year end	Revenue (€m)	EBIT (€m)	PBT (€)	EPS (€)	P/E (x)	Yield (%)
12/17	43.04	1.14	(0.01)	0.00	N/A	N/A
12/18	34.91	(16.30)	(18.66)	(2.88)	N/A	N/A
12/19e	43.00	5.00	3.00	0.25	16.6	N/A

Source: Refinitiv. Daldrup & Söhne

#### Alternative energy

13 June 2019

**Price** €4.15  
**Market cap** €25m

#### Share price graph



#### Share details

Code 4DS  
Listing Deutsche Börse Scale  
Shares in issue 6.0m  
Last reported net debt as at December 2018 €65m

#### 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 capital intensive.
- Projects can be subject to delays.
- Daldrup & Söhne has little surplus capital for expansion.

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## FY18 results: Asset write downs and delays force loss

In 2018 Daldrup & Söhne failed to meet its group revenue target of €40m and its forecast EBIT margin of between 2% and 5%. Sales of €38.9m represented a significant rise on the FY17 figure of €24.8m, thanks to the completion of a number of deep geothermal wells. However, changes in work in progress resulted in a decline in overall output, from €43.0m in FY17, to €34.9m in FY18. In addition, Daldrup & Söhne recorded losses at the EBITDA (€12.7m) and EBIT levels (€16.3m) in FY18. The reduction in profitability resulted from one-off valuation adjustments, significantly higher material costs (€29.1m in FY18 versus €21.8m in FY17) and delays due to bad weather, customer orders and the commissioning of the Taufkirchen power plant. Despite a reduction in liabilities due to banks, from €14.5m in 2017 to €11m in 2018, due to the consolidation of the Taufkirchen geothermal power plant during 2018, total debt (including other liabilities that the company indicated should be regarded as debt) rose from €39.9m in 2017 to €64.7m in 2018.

**Exhibit 1: FY18 results vs FY17 – key highlights**

€m	FY17	FY18	Change (%)
Sales	24.8	38.9	+56.9
Increase in work in progress	18.3	-4.0	N/A
Output	43.0	34.9	-18.8
EBITDA	4.7	(12.7)	N/A
Depreciation, Amortisation and Impairment	(3.6)	(3.9)	+8.3%
EBIT	1.1	(16.3)	N/A
EBIT Margin (%)	2.6%	N/A	N/A
Debt	(39.9)	(64.7)	+62.2%
Cash	1.5	2.4	+60.0%
Net debt	38.4	62.3	+62.3%
<b>Cashflow</b>			
From operating activities	9.9	34.4	+247.4%
From investing activities	(13.2)	(31.1)	+136.6%
From financing activities	(1.3)	8.2	N/A

Source: Daldrup & Söhne

## Post year-end developments

Since the year end Daldrup & Söhne has made a number of significant announcements.

In January Geysir Europe, a subsidiary of Daldrup & Söhne, increased its holding in Geox, the operating company for the Landau geothermal plant, to 100%. As a result of the transaction Daldrup & Söhne's share of Landau increased from 67.5% to 75%.

In April Daldrup & Söhne announced it had started the first exploratory drill for Swiss Nagra in Bülach, north of Zurich. Nagra is the Swiss National Cooperative for the Disposal of Radioactive Waste. According to Nagra, the drilling work at Bülach is expected to last six to nine months. However, Bülach is the first in a series of exploratory drills to be carried out for Nagra. In total Nagra has submitted 23 applications for deep boreholes, although not all 23 will necessarily be drilled as the extent of the programme will depend on the initial findings. Daldrup has confirmed this major project is planned over several years with a potential order volume in 'double-digit millions'.

In a preliminary announcement on 22 May, Daldrup & Söhne confirmed it would report an EBIT loss for 2018 of €14–17m. The company also announced a proposal to 'realign' the strategy and revealed an increase in its holding in Geysir Europe to c 98%.

On 31 May, in tandem with its FY18 results, Daldrup & Söhne announced that it intended to sell shares in the Landau geothermal power plant and Geysir Europe to IKAV Group. The deal is scheduled to complete in June and is expected to raise c €5.2m. Daldrup & Söhne will pursue a separate agreement to sell down its holding in Taufkirchen geothermal power plant. The sales

should ultimately allow Daldrup & Söhne to deconsolidate the liabilities associated with the projects (c €33m).

#### Exhibit 2: Post year-end developments

Date	Event
18 January 2019	Increase holding in Landau plant to 75% (subsidiary Geysir acquires 100%)
17 April 2019	Commenced first exploratory drilling for Swiss Nagra
22 May	Indicates an EBIT loss for 2018 and an increase in its stake in Geysir Europe (from 1/4/19)
31 May	FY18 results and announced sale of shares in Landau and Geysir Europe

Source: Daldrup & Söhne

## Strategy

The executive board proposed a 'realignment' of strategy to the supervisory board. It is proposed that the company will focus on the drilling service business and medium-sized power projects. Rather than invest in one or two large projects as a majority shareholder, Daldrup & Söhne will seek to diversify its risk over a greater number of projects, via minority holdings.

## FY19 outlook

Despite a difficult FY18, the outlook for FY19 appears more promising. From a macro perspective the feed-in-tariff remains 25.2c/kW, with funding in place for 20 years. Geothermal generation also remains exempt from the tendering process that wind and solar are subjected to. According to Daldrup & Söhne, given the benign regulatory situation, banks remain happy to lend and infrastructure investors continue to show an interest in geothermal plants. At the company level, the outlook is positive, the three main drilling rigs are expected to be in operation during the year and Daldrup & Söhne had an order backlog at the end of May of €48m and a pipeline of €105m. The financial position should improve post the recently announced disposals (expected proceeds €5.2m and the deconsolidation of liabilities). Overall for FY19, Daldrup & Söhne is expecting group revenue of €40m and is aiming for a break-even performance at the EBIT level.

## Valuation

Following recent share price weakness linked to the disappointing performance in FY18, Daldrup & Söhne is now trading at c €4.15 per share. We base our valuation analysis on consensus forecasts for FY19 of revenues of €43m and EBIT of €5m. At a share price of c €4.15, Daldrup & Söhne is trading on an EV/Sales multiple for FY19e of c 1.2x, towards the bottom end of the range of quoted peers. The FY19e EV/EBIT multiple of 10.5x is also below the peer group median of 11.3x.

#### Exhibit 3: Comparable valuation analysis

		EV/Sales 2019 (x)	EV/Sales 2020 (x)	EV/EBIT 2019 (x)	EV/EBIT 2020 (x)
Daldrup & Söhne	4DS.DE	1.2	1.1	10.5	8.8
Awilco Drilling	AWDR.OL	3.1	2.6	N/A	N/A
SD Standard Drilling	SDSD.OL	2.5	2.2	9.9	6.0
Northern Drilling	NODL.OL	15.1	3.5	N/A	15.2
Nabors Industries	NBR.BE	1.4	1.3	N/A	27.2
Transocean	RIG.BE	3.6	3.3	113.4	39.8
Odjell Drilling	ODL.NO	1.6	1.4	31.5	13.6
7C Solarparken	HRPK.DE	8.3			
Energiekontor	EKTG.DE	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	17.6
<b>Median (excluding D&amp;S)</b>		<b>3.3</b>	<b>2.2</b>	<b>11.3</b>	<b>13.6</b>

Source: Refinitiv. Note: Prices as at 7 June 2019.

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