

Daldrup & Soehne

Germany/Renewable Energy

Analysers



Accumulate

Recommendation unchanged

Share price: EUR 12.75

closing price as of 17/07/2012

Target price: EUR 15.00

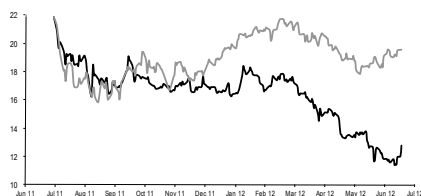
 from Target Price: EUR **23.00**

Reuters/Bloomberg

4DSG.DE/4DS GR

Market capitalisation (EURm)	69
Current N° of shares (m)	5
Free float	34%
Daily avg. no. trad. sh. 12 mth	2,797
Daily avg. trad. vol. 12 mth (m)	0
Price high 12 mth (EUR)	21.88
Price low 12 mth (EUR)	11.37
Abs. perf. 1 mth	0.47%
Abs. perf. 3 mth	-20.66%
Abs. perf. 12 mth	-41.11%

Key financials (EUR)	12/11	12/12e	12/13e
Sales (m)	40	49	62
EBITDA (m)	2	10	13
EBITDA margin	4.0%	20.1%	20.6%
EBIT (m)	(2)	5	6
EBIT margin	nm	10.0%	9.3%
Net Profit (adj.)(m)	(2)	3	4
ROCE	-2.2%	3.1%	3.5%
Net debt/(cash) (m)	5	34	35
Net Debt/Equity	0.1	0.4	0.4
Debt/EBITDA	2.8	3.4	2.7
Int. cover(EBITDA/Fin. int)	3.4	7.4	5.6
EV/Sales	2.8	2.4	1.9
EV/EBITDA	69.4	12.0	9.2
EV/EBITDA (adj.)	69.4	12.0	9.2
EV/EBIT	nm	24.1	20.5
P/E (adj.)	nm	27.1	19.9
P/BV	1.5	1.1	1.0
OpFCF yield	-8.1%	4.1%	1.5%
Dividend yield	0.0%	0.0%	0.0%
EPS (adj.)	(0.30)	0.47	0.64
BVPS	11.14	11.61	12.25
DPS	0.00	0.00	0.00



Source: Factset

— DALDRUP & SOEHNE — CDAX (Rebased)

Shareholders: Daldrup Family 66%;

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There's light at the end of the transition-tunnel. reit. ACC

The facts: Disappointing FY 11 results with EPS-loss of EUR -0.30 / share reported a while ago revealed that a) adding a new business of power&heat generation at owned power plants (IPP) takes time and upfront burdens while b) Daldrup & Söhne's strong growth over the past years has put the entire organisational set-up including working capital financing under stress. This was confirmed by Daldrup's project cost overruns in Austria in 2011. However, there's light at the end of the tunnel

Our analysis: Home turf drilling activities – strong order backlog but execution shows weaknesses: Daldrup's backbone of drilling activities suffered in 2011 on project cost overruns not properly shielded from in contract details. We expect a 'lessons learned' effect in upcoming years. Continuing order wins not only confirm Daldrup's leading market position in Europe but also keep order backlog at around EUR 100m, implying full utilization for almost the entire 2013e.

Adding stable and visible power&heat production to the portfolio, expect lack of financing to be solved shortly: Drilling results of the geothermal doublets at Daldrup's 51%-owned Taufkirchen power plant were c. 10% better than expected, pushing thermal capacity to the upper end of the 35-40 MW th target range. Hence, pending EUR 30m financing (50% of total) for above-ground operations should be solved quickly with the single biggest project risk out of the way. We forecast production start in Q4 13e, making 2014e the first year of almost full production.

Group results about to recover, earnings-boost not before 2014e, though: Consequently, we expect Power&Heat-EBITDA to contribute a meaningful proportion of 34% (EUR 5.77m) to estimated Group-EBITDA of EUR 16.8m not earlier than in 2014e. EPS 14e may almost double to EUR 0.86 from EUR 0.47 we estimate for 2012e.

Daldrup & Söhne - P&L Summary

EUR m	2010	2011	2012e	2013e	2014e	CAGR 11-14e
Sales	57.89	40.25	49.20	62.19	67.70	18.9%
Output	41.13	47.06	59.00	62.19	67.70	12.9%
EBITDA	7.83	1.63	9.90	12.83	16.80	117.7%
(% of output)	19.0%	3.5%	16.8%	20.6%	24.8%	
o/w Drilling, others	7.83	1.63	9.90	11.00	11.03	89.2%
o/w power & heat	0.00	0.00	0.00	1.83	5.77	n.m.
EBIT	3.83	-2.49	4.91	5.76	9.61	n.m.
(% of output)	9.3%	-5.3%	8.3%	9.3%	14.2%	
EPS	0.49	-0.30	0.47	0.64	0.86	n.m.

Source: Daldrup, equinet

Strong balance sheet – gearing of 43% by YE 13e allows more headroom to fare better in transition: We believe that estimated gearing of 43% by YE 13e, solely allocated to the guaranteed renewables power (and negotiated heat) generation business leaves headroom for more. This is primarily true for additional working capital/capex financing to facilitate further growth in drilling.

Conclusion & Action - current 1x P:B 13e a solid support – refrain from Group DCF-fair value of EUR 22 on execution risks: We reduce our PT to EUR 15 (EUR 23) based on a blend of peer group & DCF. However, we currently refrain from our long-term DCF fair value of EUR 22 due to execution risks in power&heat as well as operational issues in drilling in 2011. Current trading yields P:B 13e of 1x, a solid foundation, though. We reiterate our ACCUMULATE recommendation on 18% upside. Triggers: P&H financing, H1 12e turnaround