

Daldrup & Söhne

Favourable growth outlook

Daldrup & Söhne (D&S) continues to increase its presence in geothermal generation and was recently awarded a new drilling concession for the Neuried claim. The order book remains strong and the macro environment is positive in our view. Daldrup & Söhne is on track to meet FY18 management guidance and we believe further growth is likely in the coming years.

H118 results on track to meet FY18 guidance

H1 results from Daldrup & Söhne showed total output of €22.0m (H117: €22.8m), but EBITDA rose by 34.8%, from €2.3m in H117 to €3.1m in H118. Other operating income, generated by provision reversals and sale of fixed assets, rose by c €0.8m to c €1m and accounted for the majority of the rise in EBITDA. EBIT increased by €0.7m to €1.2m in H118, generating an EBIT margin of 5.5%. H118 operating cash flow was positive and, overall, Daldrup & Söhne appears well on track to meet management guidance for the year of revenue of at least €40m and an EBIT margin of 2–5%.

Outlook continues to appear promising

The outlook for renewable energy, including geothermal, remains attractive as countries strive to limit their greenhouse gas emissions and comply with international targets. Positively, Daldrup & Söhne was recently awarded a new drilling concession for the Neuried claim. The order book remains healthy, with €63m of outstanding orders at the drilling services business. The prospect of potential order backlogs resulting from the project pipeline in the coming years also increases the management board's confidence. D&S should continue to benefit from production at Taufkirchen (group-level share 55%), which commenced in H1, and a further ramp-up of output at Landau (group-level share 67%).

Valuation: EV/sales multiple discount to peer group

Given the narrowly based consensus forecast available on Bloomberg, we use management guidance (revenue of at least €40m and an EBIT margin of 2–5%) as a basis for our valuation analysis. At current levels of c €10/share, D&S is trading on an EV/sales multiple of 1.7x (based on €40m revenue) and 1.5x (based on €45m revenue). The EV/EBIT multiple remains c 30x (based on 5% EBIT margin and revenue of c €45m). Based on EV/sales, Daldrup & Söhne is trading broadly in line with the wider market and at a discount to a group of selected peers. The EV/EBIT multiple remains at a premium to its peer group.

Historical figures and consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/17	24.8	0.02	0.004	0.0	N/A	N/A
12/18e	31.4	0.55	0.050	0.0	185	N/A

Source: Bloomberg

Alternative energy

17 October 2018

Price €9.25
Market cap €56m

Share price graph



Share details

Code 4DS
Listing Deutsche Börse Scale
Shares in issue 6.0m
Last reported net debt as at June 2018 €9.2 m

Business description

Daldrup & Söhne is an onshore drilling and environmental services company, with competencies in geothermal projects from feasibility through permitting and construction to supply contracting. The company is about to establish a predictable revenue stream with two plants already producing geothermal energy.

Bull

- Emission reduction and renewable energy targets provide a helpful macro environment.
- Favourable feed-in-tariffs in Germany for geothermal energy.
- Increased focus on operational plant should reduce financial volatility.

Bear

- Investment in geothermal energy is likely to increase the capital intensity of the business.
- The time frame for the development of geothermal energy projects is longer than for some other renewable technologies.

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Interim results and valuation

Exhibit 1: H118 results vs H117

€m	H117	H118	H118 vs H117
Sales	5.5	17.1	211%
Increase in WIP	17.3	4.9	-72%
Output	22.8	22.0	-3%
EBITDA	2.3	3.1	35%
EBIT	0.5	1.2	140%
EBIT margin (%)	2.2%	5.5%	
PBT	0.17	0.15	-13%
Net profits	0.17	0.11	-36%
EPS (€)	0.03	0.02	-33%
Cash flow from operating activities	(1.102)	35.915	
Cash flow from investing activities	0.101	(61.045)	
Cash flow from financing activities	0.612	2.553	
Change in cash	(0.389)	(22.577)	

Source: Daldrup & Söhne

Exhibit 2: Comparable valuation analysis

		P/E (x)		EV/sales (x)		EV/EBIT (x)	
		2018	2019	2018	2019	2018	2019
DJ STOXX 600	SXXP	14.3	13	1.6	1.5	N/A	N/A
Drilling & renewable companies							
Odffjell Drilling	ODL NO	154.8	18.4	2.9	2.5	27.1	15.2
7C Solarparken	HRPK GY	27.6	25.0	8.3	8.0	24.0	22.8
Energy Development Corporation	EDC PM	14.5	12.0	5.2	4.8	13.2	11.7
Enrgiekontor	EKT GY	33.9	10.6	3.2	1.6	14.5	7.6
Good Energy	GOOD LN	14.9	12.8	0.6	0.6		
Ormat Technology	ORA US	22.9	22.2	5.5	5.2	19.1	15.9
Polish Energy Partners	PEP PW		22.9	0.6	0.6	29.4	15.9
Average		44.8	17.7	3.8	3.3	21.2	14.9

Source: Bloomberg. Note: Prices as at 10 October 2018.

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