

28 August 2024

**DALDRUP & SOEHNE AG**

Rating	Buy (Buy)
Share price (EUR)	7.80
Target price (EUR)	14.00 (11.00)
Bloomberg	4DS GY
Sector	Renewables

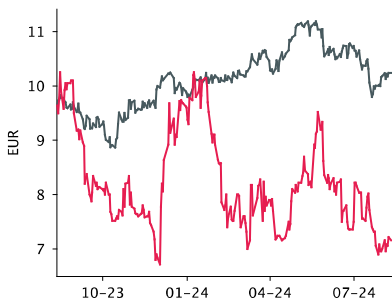
**Share data**

Shares out (m)	6.0
Daily volume shs (m)	0.0
Free float (%)	41.60
Market cap (EUR m)	43
EV (EUR m)	46
DPS (EUR)	0.00
Dividend yield (%)	0.0
Payout ratio (%)	0.0

**Performance**

ytd (%)	-21.7
12 months (%)	-28.3
12 months rel. (%)	-35.6
Index	SDAX

**Share price performance**



— Daldrup & Söhne AG  
— Price rel. to SDAX - Price Index

Source: Bloomberg

**Next triggers**

29 August 2024: AGM  
2 September 2024: Equity Forum

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# Strong and profitable H1-24 - Increase of FY 2024 guidance

Daldrup published prel. key figures for the first half of FY 2024. The highlight was the doubling of EBIT to EUR ~3m. According to CEO Mr. Toenies, the improvement in the EBIT margin is sustainable. Based on new estimates we increase our TP to EUR 14.00. The recommendation, of course, remains Buy.

**Prel. H1-24 figures: Doubling of EBIT**

According to preliminary and unaudited figures for the first half of 2024, Daldrup will achieve a EBIT of around EUR 3m. This corresponds to an EBIT margin of around 10.3%. This means a substantial year-over-year increase as the company realized an EBIT of EUR 1.4m; based on total output, the EBIT margin amounted to 5.8%

**New estimates**

Following the positive H1-24 results, we increase estimates (in particular EBIT) for the full year and beyond.

Change of estimates (in EURm)	2024e		Δ	2025e		Δ	2026e		Δ
	old	new		old	new		old	new	
Sales	50.2	51.0	2%	51.8	52.6	2%	53.7	54.5	1%
EBIT	3.0	4.2	38%	3.4	4.2	24%	3.7	4.4	19%
EPS (EUR)	0.35	0.54	53%	0.42	0.57	35%	0.50	0.65	30%

Source: Quirin Privatbank

**Increase of FY 2024 guidance: EBIT margin up by 200 basis points**

Due to the good performance of the drilling business, a solid order backlog and dynamic market development driven by municipal heating planning, the Executive Board is raising its forecast for FY 2024. Total output is expected to reach around EUR 50m (previously: EUR 47m). The Management Board expects the EBIT margin to be between 7% and 9% (previously: 5% to 7% of total output).

Based on the good first half-year, the full-year outlook does not look aggressive. During an earnings call CEO Mr. Tönies explained that the new margin guidance is sustainable; we therefore increase our short- and mid-term estimates. As a result, we increase our DCF-based TP from EUR 11.00 to EUR 14.00. The recommendation remains Buy.

Key figures		2022	2023	2024e	2025e	2026e
Sales	EUR m	38	49	51	53	55
EBITDA	EUR m	4	5	6	6	6
EBIT	EUR m	2	3	4	4	4
EPS	EUR	0.14	0.15	0.54	0.57	0.65
Sales growth	%	-51.1	28.6	3.8	3.1	3.6
EBIT growth	%	16.4	41.4	59.2	1.2	4.8
EPS growth	%	8.9	4.9	259.0	6.0	14.3
EBITDA margin	%	11.1	10.1	11.2	11.4	11.5
EBIT margin	%	4.8	5.3	8.1	8.0	8.1
Net margin	%	2.2	1.8	6.3	6.5	7.1
EV/Sales	ratio	1.28	0.98	0.90	0.82	0.70
EV/EBITDA	ratio	11.5	9.7	8.0	7.2	6.0
EV/EBIT	ratio	26.6	18.5	11.1	10.2	8.6
P/E	ratio	46.6	67.1	13.4	12.6	11.0
P/BV	ratio	2.0	2.9	1.8	1.6	1.4
Dividend yield	%	0.0	0.0	0.0	0.0	0.0

Source: Bloomberg, Company data, Quirin Privatbank estimates

## Reasons for sustainable improvement of Daldrup's EBIT margin

During the earnings call CEO Mr. Tönies explained that the improvement of Daldrup's EBIT margin mainly reflects a change from "Werkvertrag" (contract for work) to the "Dienstvertrag" (service contract) with its clients.

The contract for work is characterized as follows: In the case of a service contract, only the action is owed, whereas in the case of a contract for work, a specific result is owed. If this does not materialize, the customer has various claims respectively the contractor additional costs.

Contract for works: the scope of the work and the time of delivery are determined. Furthermore, there is an acceptance of the agreed work and most important: The contractor bears the risk and is liable in the event of non-fulfilment.

Service contract: by signing a service contract, the contractor undertakes to provide its labor services. He does not owe a specific result, as is the case with a contract for work.

Conclusion: The work contract is less risky for Daldrup's business; risks that could prolong the drilling process (such as unfavorable weather conditions or soil damage) are then no longer covered by Daldrup.

Another aspect of increasing margins was to reduce the employment of expensive temporary workers as part of efficiency improvements.

## Ahead of attractive tenders

Mr Tönies also mentioned that September and October are important months for Daldrup: then a decision will be made on the awarding of major projects in the geothermal energy sector; Daldrup could thus be awarded further contracts.

## Looking for a new CFO

CFO Stephan Temming's contract expired in July. Mr Tönies explained that the company is looking for a successor, until then he will take over the position on a temporary basis.

The requirements profile of the new CFO also includes a stronger focus on the capital market.

## Valuation

We have decided not to carry out a peer group valuation, firstly because there are hardly any comparable listed companies and secondly because Daldrup prepares its accounts in accordance with conservative German accounting standards (HGB). We therefore apply a DCF valuation:

### DCF valuation

Our DCF model indicates a fair value of EUR 14.06 (EUR 11.12) per share for Daldrup and reflects the long-term perspectives of the company. The increase in fair value essentially reflects a higher expected EBIT margin. Our assumptions are as follows:

#### Phase 1 (2024e-26e):

We estimated the free cash flows (FCF) of phase 1 according to our detailed financial forecasts for this period stated in the financials section.

#### Phase 2 (2027e-33e):

For Phase 2, we assumed an initial sales growth of conservative 3.5%. The growth fades out to 0.9% in 2033e. We assumed EBIT margin to rise from 8.0% to 9.0% in FY 2033e.

#### Phase 3:

For the calculation of the terminal value, we applied a long-term FCF growth rate of 2.0% to reflect Daldrup's growth perspectives.

Based on these assumptions, we calculated a fair value of the Daldrup's operating business of EUR 88m. We deducted its net debt position of 31 December 2023. The resulting fair value per share amounts to EUR 14.06.

### Daldrup & Söhne

EURm	PHASE 1			PHASE 2							PHASE 3
	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	∞
Sales	51.0	52.6	54.5	56.4	58.0	59.3	60.3	61.2	61.9	62.5	
YoY growth	3.8%	3.1%	3.6%	3.5%	2.8%	2.2%	1.8%	1.4%	1.1%	0.9%	
EBIT	4.2	4.2	4.4	4.5	4.7	4.9	5.1	5.3	5.5	5.6	
EBIT margin	8.1%	8.0%	8.1%	8.0%	8.2%	8.3%	8.5%	8.7%	8.8%	9.0%	
Income tax on EBIT (cash tax rate)	-1.2	-1.3	-1.3	-1.1	-1.2	-1.2	-1.3	-1.3	-1.4	-1.4	
Depreciation and amortisation	1.6	1.8	1.9	0.8	0.9	0.9	0.9	0.9	0.9	0.9	
Change in long-term provisions	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
Other non-cash items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Change in net working capital	-0.5	-0.5	-0.6	-0.5	-0.4	-0.3	-0.3	-0.2	-0.2	-0.1	
Net capital expenditure	-2.5	-2.0	-1.5	-0.9	-0.9	-0.9	-1.0	-1.0	-1.0	-1.0	
<b>Free cash flow</b>	<b>1.6</b>	<b>2.4</b>	<b>3.1</b>	<b>3.0</b>	<b>3.2</b>	<b>3.5</b>	<b>3.7</b>	<b>3.8</b>	<b>4.0</b>	<b>4.2</b>	
<b>Present values</b>	<b>1.6</b>	<b>2.2</b>	<b>2.7</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>	<b>2.4</b>	<b>64.5</b>
Present value Phase 1	6.5										
Present value Phase 2	17.4										
Present value Phase 3	64.5										
Total present value	88.4										
+ Excess cash/Non-operating assets	3.6										
- Financial debt	-7.7										
- Pension provisions	0.0										
Fair value of equity	84.2										
Number of shares (m)	6.0										
Fair value per share (EUR)	14.06										

Risk free rate	3.00%	Target equity ratio	40.0%
Equity risk premium	6.00%	Beta (fundamental)	1.0
Debt risk premium	2.50%	<b>WACC</b>	<b>5.82%</b>
Tax shield	30.0%	<b>Terminal growth</b>	<b>2.0%</b>

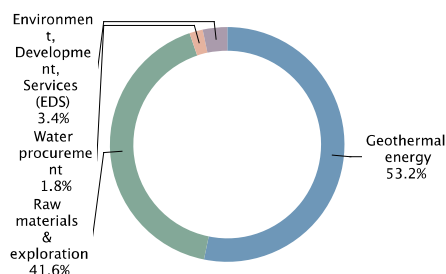
Sensitivity analysis						
		Terminal growth (Phase 3)				
WACC		1.0%	1.5%	2.0%	2.5%	3.0%
	4.8%	15.21	17.04	19.51	23.05	28.53
	5.3%	13.28	14.63	16.38	18.75	22.14
	5.8%	11.75	12.77	<b>14.06</b>	15.74	18.02
	6.3%	10.51	11.30	12.29	13.52	15.14
	6.8%	9.48	10.11	10.88	11.82	13.01

Source: Quirin Privatbank

### Company description

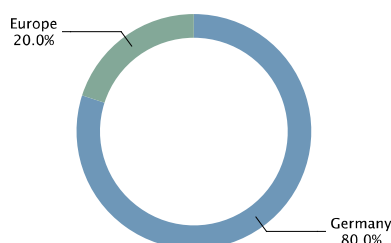
Daldrup & Söhne AG, with a company history of more than 75 years, is a specialised provider of drilling and environmental services and is positioned among the leading companies in Germany. Its activities are divided into the business areas Geothermal, Resources & Exploration, Water Extraction and Environment, Development & Services (EDS). In the Geothermal Energy business sector, drilling services are provided both for near-surface geothermal energy (especially geothermal probes for heat pumps), but above all also drilling services for deep geothermal energy of up to 6,000 m, in order to use the geothermal energy thus accessible for the generation of electricity and/or heat.

### Revenues by segment 2023



Source: Company data

### Revenues by region 2023



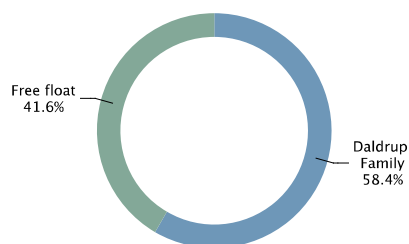
Source: Company data

### Segment data (EUR m)

Revenues (growth in %)	2022	YOY	2023	YOY	2024e	YOY	2025e	YOY	2026e	YOY
Geothermal energy	14.5	-74.5%	26.1	80.0%	27.8	6.5%	28.8	3.6%	29.8	3.5%
Raw materials & exploration	18.0	9.8%	20.4	13.6%	19.0	-7.0%	18.5	-2.6%	18.5	0.0%
Water procurement	3.6	15.4%	0.9	-75.0%	2.0	122.2%	3.0	50.0%	3.8	26.7%
Environment, Development, Services (EDS)	2.1	34.6%	1.7	-20.9%	2.2	32.4%	2.3	4.5%	2.4	4.3%

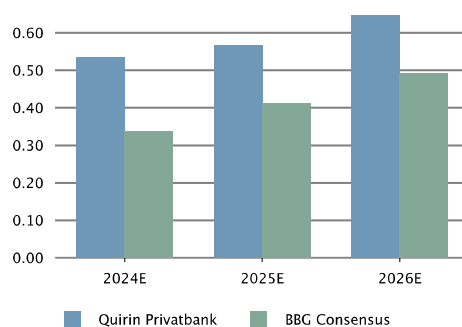
Source: Company data, Quirin Privatbank estimates

### Shareholder structure



Source: Company data

### EPS: Quirin Privatbank vs. consensus



Source: Quirin Privatbank Research, Bloomberg

### Company guidance 2024

Total output is expected to reach around EUR 50m (previously: EUR 47m). The Management Board expects the EBIT margin to be between 7% and 9% (previously: 5% to 7% of total output).

## Profit &amp; loss statement

Profit & loss statement (EUR m)	2022	YOY	2023	YOY	2024e	YOY	2025e	YOY	2026e	YOY
Sales	38.2	-51.1 %	49.1	28.6 %	51.0	3.8 %	52.6	3.1 %	54.5	3.6 %
Unfinished Goods	-1.4		-1.6		0.2		1.0		1.0	
Other own work capitalized	0.1		0.9		0.4		0.4		0.4	
Other operating earnings	1.1		1.8		1.9		2.1		2.1	
Cost of goods	13.4		21.3		22.1		22.8		23.6	
Gross profit	24.6		28.9		31.4		33.2		34.4	
Personnel expenses	10.0		10.3		10.7		11.1		11.5	
Depreciation	2.4		2.4		1.6		1.8		1.9	
Other operating expenses	10.4		13.6		15.0		16.2		16.7	
EBITDA	4.3	7.7 %	5.0	16.6 %	5.7	15.3 %	6.0	4.6 %	6.3	5.2 %
EBITDA margin (%)	11.14		10.10		11.21		11.37		11.54	
EBIT	1.8	16.4 %	2.6	41.4 %	4.2	59.2 %	4.2	1.2 %	4.4	4.8 %
EBIT margin (%)	4.83		5.31		8.14		7.98		8.07	
Net interest	-0.7		-0.8		-0.7		-0.5		-0.2	
Income from Participations	0.0		0.0		0.0		0.0		0.0	
Net financial result	-1.0		-1.7		-0.7		-0.5		-0.1	
Exceptional items	0.0		0.0		0.0		0.0		0.0	
Pretax profit	0.9	8.6 %	0.9	7.3 %	3.4	263.1 %	3.7	7.2 %	4.3	15.6 %
Pretax margin (%)	2.31		1.93		6.74		7.01		7.82	
Taxes	0.0		0.1		0.2		0.3		0.4	
Tax rate (%)	3.51		5.70		6.78		7.85		8.93	
Earnings after taxes	0.9		0.9		3.2		3.4		3.9	
Minorities	0.0		0.0		0.0		0.0		0.0	
Group attributable income	0.9	8.9 %	0.9	4.9 %	3.2	259.0 %	3.4	6.0 %	3.9	14.3 %
No. of shares (m)	6.0		6.0		6.0		6.0		6.0	
Earnings per share (EUR)	0.14	8.9 %	0.15	4.9 %	0.54	259.0 %	0.57	6.0 %	0.65	14.3 %

Source: Company data, Quirin Privatbank estimates

## Balance sheet

Balance sheet (EUR m)	2022	YOY	2023	YOY	2024e	YOY	2025e	YOY	2026e	YOY
<b>Assets</b>										
Cash and cash equivalents	3.1		3.6		5.1		5.3		5.5	
Accounts receivables	7.0		9.3		9.6		9.9		10.3	
Inventories	10.7		10.5		10.9		11.3		11.7	
Other current assets	8.6		7.5		7.5		7.5		7.5	
Tax claims	0.0		0.0		0.0		0.0		0.0	
<b>Total current assets</b>	<b>29.5</b>	<b>35.3 %</b>	<b>31.1</b>	<b>5.4 %</b>	<b>33.4</b>	<b>7.4 %</b>	<b>34.2</b>	<b>2.4 %</b>	<b>35.2</b>	<b>2.8 %</b>
Fixed assets	5.7		6.2		7.1		7.3		6.9	
Goodwill	0.0		0.0		0.0		0.0		0.0	
Other intangible assets	0.0		0.1		0.1		0.1		0.1	
Financial assets	5.0		4.0		4.0		4.0		4.0	
Deferred taxes	0.0		0.0		0.0		0.0		0.0	
Other fixed assets	0.0		0.0		0.0		0.0		0.0	
<b>Total fixed assets</b>	<b>10.6</b>	<b>-36.8 %</b>	<b>10.4</b>	<b>-1.9 %</b>	<b>11.3</b>	<b>8.7 %</b>	<b>11.5</b>	<b>1.8 %</b>	<b>11.1</b>	<b>-3.5 %</b>
<b>Total assets</b>	<b>40.2</b>	<b>3.9 %</b>	<b>41.5</b>	<b>3.5 %</b>	<b>44.8</b>	<b>7.7 %</b>	<b>45.8</b>	<b>2.2 %</b>	<b>46.3</b>	<b>1.2 %</b>
<b>Equity &amp; Liabilities</b>										
Subscribed capital	6.0		6.0		6.0		6.0		6.0	
Reserves & other	36.4		16.0		16.0		16.0		16.0	
Revenue reserves	-22.4		-0.9		2.3		5.7		9.5	
Accumulated other comprehensive	0.0		0.0		0.0		0.0		0.0	
<b>Shareholder's equity</b>	<b>20.0</b>	<b>4.9 %</b>	<b>21.0</b>	<b>5.2 %</b>	<b>24.2</b>	<b>15.3 %</b>	<b>27.6</b>	<b>14.0 %</b>	<b>31.5</b>	<b>14.1 %</b>
Minorities	0.0		0.0		0.0		0.0		0.0	
<b>Shareholder's equity incl. minorities</b>	<b>20.0</b>	<b>4.9 %</b>	<b>21.0</b>	<b>5.2 %</b>	<b>24.2</b>	<b>15.3 %</b>	<b>27.6</b>	<b>14.0 %</b>	<b>31.5</b>	<b>14.1 %</b>
<b>Long-term liabilities</b>										
Pension provisions	0.0		0.0		0.0		0.0		0.0	
Financial liabilities	0.9		0.8		0.8		0.8		0.6	
Tax liabilities	0.0		0.0		0.0		0.0		0.0	
Other liabilities	2.4		1.5		1.6		1.7		1.7	
<b>Total long-term debt</b>	<b>4.4</b>	<b>-18.2 %</b>	<b>5.1</b>	<b>15.7 %</b>	<b>5.3</b>	<b>3.3 %</b>	<b>5.4</b>	<b>2.7 %</b>	<b>5.4</b>	<b>-0.5 %</b>
<b>Short-term debt</b>										
Other provisions	0.0		0.0		0.0		0.0		0.0	
Trade payables	5.5		5.6		5.8		6.0		6.2	
Financial debt	6.8		6.9		6.4		3.6		0.0	
Other liabilities	1.6		2.0		2.0		2.1		2.2	
<b>Total short-term debt</b>	<b>15.8</b>	<b>11.0 %</b>	<b>15.4</b>	<b>-2.1 %</b>	<b>15.3</b>	<b>-1.0 %</b>	<b>12.7</b>	<b>-16.6 %</b>	<b>9.4</b>	<b>-25.9 %</b>
<b>Total equity &amp; liabilities</b>	<b>40.2</b>	<b>3.9 %</b>	<b>41.5</b>	<b>3.5 %</b>	<b>44.8</b>	<b>7.7 %</b>	<b>45.8</b>	<b>2.2 %</b>	<b>46.3</b>	<b>1.2 %</b>

Source: Company data, Quirin Privatbank estimates

## Financial key ratios

Key ratios	2022	2023	2024e	2025e	2026e
<b>Per share data (EUR)</b>					
EPS	0.14	0.15	0.54	0.57	0.65
Book value per share	3.3	3.5	4.0	4.6	5.3
Free cash flow per share	0.3	0.7	0.7	0.8	0.8
Dividend per share	0.00	0.00	0.00	0.00	0.00
<b>Valuation ratios</b>					
EV/Sales	1.28	0.98	0.90	0.82	0.70
EV/EBITDA	11.5	9.7	8.0	7.2	6.0
EV/EBIT	26.6	18.5	11.1	10.2	8.6
P/E	46.6	67.1	13.4	12.6	11.0
P/B	2.0	2.9	1.8	1.6	1.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
<b>Growth</b>					
Sales growth (%)	-51.1	28.6	3.8	3.1	3.6
EBITDA growth (%)	7.7	16.6	15.3	4.6	5.2
EBIT growth (%)	16.4	41.4	59.2	1.2	4.8
EPS growth (%)	8.9	4.9	259.0	6.0	14.3
<b>Profitability ratios</b>					
EBITDA margin (%)	11.1	10.1	11.2	11.4	11.5
EBIT margin (%)	4.8	5.3	8.1	8.0	8.1
Net margin (%)	2.2	1.8	6.3	6.5	7.1
ROCE (%)	7.6	10.0	14.1	12.7	11.9
<b>Financial ratios</b>					
Total equity (EUR m)	20.0	21.0	24.2	27.6	31.5
Equity ratio (%)	49.7	50.6	54.1	60.3	68.0
Net financial debt (EUR m)	6.1	5.3	3.0	0.0	-4.9
Net debt/Equity	0.5	0.5	0.5	0.6	0.7
Interest cover	2.2	3.0	4.9	6.4	15.8
Net debt/EBITDA	1.4	1.1	0.5	0.0	-0.8
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Working Capital (EUR m)	13.7	15.7	18.1	21.5	25.7
Working capital/Sales	0.36	0.32	0.36	0.41	0.47

Source: Company data, Quirin Privatbank estimates

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Date	Price target-EUR	Rating	Initiation
28.08.2024	14.00	Buy	
22.07.2024	11.00	Buy	22.07.2024

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